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5 OCTOBER 1988

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# ***JPRS Report—***

## **China**

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**Sun Weiben's Speech at Heilongjiang Party Meeting**  
*SK2080040 Harbin HEILONGJIANG RIBAO*  
*in Chinese 1 Aug 88 pp 1, 2*

[“Excerpts” of speech of Sun Weiben, secretary of the Heilongjiang Provincial CPC Committee, made at the enlarged meeting of the Standing Committee of the provincial party committee on 31 July]

[Text] This meeting relayed and studied “Comrade Zhao Ziyang’s speech made at the ninth meeting of the political bureau of the CPC Central Committee” and the gist of speeches given by Comrades Zhao Ziyang and Hu Qili during their inspection tours in our province; and studied the “enterprise law” and a supplementary document. In line with the actual conditions of localities and departments, participants discussed the guidelines of these speeches.

Through discussions, participants unanimously maintained that Comrade Zhao Ziyang’s speech at the ninth meeting of the CPC Central Committee Political Bureau on tiding over the difficult period, promoting reform development, and gradually setting up a new order of socialist commodity economy is of great significance, and party committees at various levels should conscientiously implement the guidelines of the speech. They think that during their inspection tours to our province Comrades Ziyang and Qili further showed us a definite orientation of reform and economic development for the crucial stage of reform. The central leaders’ important instructions are extremely helpful to further unify our thoughts and actions. Comrades Ziyang and Qili fully affirmed our province’s guiding work ideology and current work tasks. Simultaneously, they pointed out four prominent problems related to Heilongjiang’s economic development. Crucial problems include questions concerning the vitality of large enterprises; development of town and township enterprises, collective enterprises, and tertiary industry; development of Sino-Soviet trade and economic and technological cooperation; the slow development of agriculture; and exploration of agricultural development ways with Heilongjiang’s characteristics. Leading comrades of the Central authorities helped us not only pioneer the train of thought but also figure out methods to solve these problems. So, we must implement the guidelines of these speeches, attend to the work in the latter half of this year, and strive to improve Heilongjiang’s work.

The overall work of this year was comprehensively arranged at the People’s Congress convened at the beginning of this year and the party congress held last May. Now, I will concentrate on the following few questions in line with the opinions made by Standing Committee members and meeting participants.

**1. We should continue to deeply conduct the mass discussion campaign on the standards for productive forces.**

The previous mass discussion campaign stage positively promoted the work of emancipating the minds, eliminating “leftist” and outdated ideas, transforming ideas, enhancing thinking, and accelerating the reform pace. During their inspection tours in our province, Comrades Ziyang and Qili fully affirmed our province’s practices and achievements in launching the mass discussion campaign; and urged us to continuously attend to the discussion to unify, in line with the standards for productive forces, our understanding of the series of major issues during the crucial stage of reform, and to prepare well for tiding over the difficult period. Therefore, we should continuously deepen the discussion and persist in it at least by the end of this year. All localities and departments should pay attention to helping some cadres eliminate the lax state and the thoughts of stopping the discussion only with preliminary achievements, attend to solving the problems related to uneven development of the discussion campaign, and work closely in line with reality in an effort to score real results.

The major orientation of the next step of the standards for productive forces discussion should be extended to three spheres. The discussion should be extended to the production sphere relationship. Through discussion, the production sphere relationship should further get rid of the old product economy pattern, gradually set up a new system and a new order of socialist commodity economy, and accelerate the economic restructuring pace. The discussion should be extended to the superstructure sphere. Through discussion, the superstructure sphere should solve the problems concerning organs’ dishonesty and inseparation of party functions and enterprise management, and accelerate the political structural reform. The discussion should be extended to the sphere of productive forces. Through discussion, the sphere of productive forces will correctly understand the law of production development, deepen and perfect economic development strategy, correct the guiding ideology of economic work, and promote the great development of productive forces.

At present we should particularly resolve the following four issues. First, we should resolve the issue concerning the understanding of the situation in reform and economic development to unify the thinking of the people throughout the province in line with the guidelines of the ninth meeting of the political bureau. We should conscientiously analyze the current thinking of cadres and masses, and organize study, discussions, consultation and dialogues to deal with the various different understandings of the situation in reform and economic development. Using the idea of establishing a new order for the socialist commodity economy, and by integrating theory with practice, we should clearly explain to the masses why reform has entered a crucial period, why we should go through the juncture of price and wage

reforms, where the risks and difficulties lie when we go through the juncture, what mental and work preparations we should make to go through the juncture, what advantages and benefits the state and the people will enjoy after going through the juncture, and so on and so forth. Propaganda departments of party committees at various levels, theoretical research departments and mass media should exert active efforts to conduct education in the current reform situation. Through discussion, we should clarify the people's confused understanding, and enhance their confidence in going through the juncture and their sense of mission and responsibility for eliminating the barriers together. Second, we should resolve the issue concerning implementation of the policies already formulated, and further efforts to improve and support them. During previous discussions, all localities formulated many reform policies and measures for economic invigoration based on their specific conditions, and the economic balancing and level departments of the province also put forward 100 policies concerning 12 areas. The next step we should take is to go deep into the realities of life to inspect how these policies have been implemented. We should listen to both the information provided by pertinent departments and the opinions of the grassroots level to ascertain the situation. If the policies are not implemented due to a lack of supporting measures, we should organize concerned departments to coordinate them. If the policies are resisted or implemented in a dilatory manner, we should conduct criticism, and make sure that the policies already formulated are implemented to the letter. After putting the policies into effect at the grassroots level for some time, which would impact some areas and create reactions, we will discover some deficiencies, and we should broaden our field of thinking over new policies. We should take timely action to supplement and improve them to make reform policies more coordinated. Third, we should resolve the issue concerning active efforts to implement policies adequately, flexibly, and successfully. The various grassroots units and production enterprises should shift their attention from asking for policies from higher authorities to implementing policies. Higher levels should delegate power to lower levels. Their granting policies to lower levels is merely to provide some favorable external conditions for invigorating the grassroots level and enterprises. Whether or not the grassroots level and enterprises can be truly invigorated depends on their own ability to use the policies. It should be said that the policies and regulations put forward previously were not small in number. However, as has been learned, some grassroots units have not truly used them adequately, successfully and flexibly. We hope that party committees and governments at various levels will pay attention to this. Fourth, we should resolve the issue concerning the courage and resolution for reform to exert more efforts in blazing new trails. If we regard the major purpose of our previous large-scale discussion as to catch up with the national reform pace, and learn from the reform experiences of other areas, we should then exert more efforts to devise ways to conduct new explorations and pioneering work

for reform on the basis of the reality of our province in the next step of the large-scale discussion. Comrades Ziyang and Qili raised many issues during their recent inspection tours in our province, such as the issues on being open and far, on participating, on introducing the township enterprise managerial mechanism into state enterprises, on enforcing the shareholding system, on annexing enterprises, on "enterprises without high authorities," and so on and so forth. Our further emancipation of mind is required to bravely put them into practice that we can make a new step forward in reform and create and accumulate our own experiences.

To further deepen this large-scale discussion campaign, we should strengthen leadership over it. Leaders at all levels should comprehensively and scientifically master and apply the criterion of productive forces, respect the laws for developing productive forces, observe things, ponder problems, judge between right and wrong, handle contradictions, and guide the discussion campaign in line with the objective demands of developing productive forces. We should try not to pragmatically, narrowly and simply explain the criterion of productive forces. Comrade Ziyang and Qili both said that the criterion of productive forces is different in idea with profits and money making. If we use improper means to earn money and harm the interests of the whole—affecting production and development if we speak in terms of the whole situation—we cannot say we have developed the productive forces. The two central leading comrades have profoundly expounded on this issue and hoped that the principal leaders at all levels throughout the province will profoundly understand, personally grasp and unceasingly deepen this discussion campaign.

## 2. We should implement the "enterprise law," deepen enterprise reform and raise economic results.

As for how to smoothly overcome difficulties in the price and wage reforms, Comrade Ziyang and Qili respectively touched on three major viewpoints. First, in face of the various risks while barriers eliminating, the issue of primary importance is to raise the economic results of enterprises; second, the key to overcoming difficulties lies in deepening the entire reform; and third, the first issue of developing Heilongjiang's economy is to vitalize large enterprises and now we must study ways to introduce the operational mechanism of township enterprises into large enterprises. We should better study and understand these important ideas and implement them in line with reality.

To raise the economic results of enterprises and intensify our province's material ability to withstand the strains while "eliminating barriers," in the second half of this year, we should particularly grasp the following few economic structural reform tasks:

First, we should comprehensively promote and perfect the enterprise contract management system and realistically introduce competition into enterprises. Based on

investigations, about 90 percent of the province's budgetary industrial enterprises have implemented the contract or leasing systems. However, only 35 percent of these enterprises have introduced competition mechanism. Among them, only 15 large and medium-sized enterprises have opened to competitive biddings. Practice shows that enterprises that have introduced competition have better management results than other contract enterprises. It is necessary to rapidly formulate detailed rules and regulations for implementing the state "contract regulations" and the "leading regulations," guarantee the introduction of competition mechanism, and standardize, institutionalize and publicize competitive contract operations. During the second half of this year, the province as a whole should consider the perfection of enterprise contract system as the leading content of deepening enterprise reform. Enterprises that fail to institute the contract system must continue to firmly grasp the contract system on the premise of introducing competition. Enterprises that have already instituted the contract system but have failed to introduce competition must take active and prudent steps to examine the work and take remedial measures. All localities may form enterprise competition and contract appraisal committees which are composed of representatives of enterprise responsible departments, departments in charge of comprehensive economic work, and relevant experts and workers to reinvestigate enterprises that have already implemented the contract or leasing systems. During the contract period, no public biddings will be conduct among enterprises whose original leading bodies are competent, whose contract targets are advanced and rational, whose production situation is good and whose staffers and workers are satisfied with the operation. If the original contracts are imperfect, we must supplement them. Enterprises whose leading bodies have big problems which make them difficult to honor the contracts or whose contract targets are low must be opened to public biddings and must reelect the contractors even though this may cause some fluctuations. In addition to having the state organs to sign contracts with enterprises, enterprises themselves should also introduce the competition mechanism, implement the contract systems at all levels, and establish a contract system with the higher levels and a system to guarantee the fulfillment of targets with units at the same levels. We should guide enterprises' internal production and operational activities in line with the law of value and promote a whole range of reforms in enterprises.

Second, we should bravely transplant the managerial mechanism of township enterprises to state enterprises. Comrade Ziyang said that a lack of good mechanism is the reason why large enterprises fail to compete with small enterprises. A very important way to invigorate large- and medium-sized enterprises is probably to add the good mechanism of township enterprises to their advantages in personnel and equipment. We should further emancipate our minds, and proceed from the objective requirement to develop productive forces to

actively introduce the mechanism of township enterprises into state enterprises. At present, we may start with three areas. The first is the personnel system. Like township enterprises, we should select the people contracting for enterprise management through various measures, such as open invitation and appointment, without considering their status and the "ownership" of the units where they belong. Within an enterprise, we should appoint at every level, and encourage fair and open competition without considering whether the people appointed are cadres or workers, and without considering their level if they are cadres. People holding plant-level administrative deputy posts, and chiefs of the three units should be nominated by plant directors (managers). The second is the labor system. Like township enterprises, we should eliminate the iron rice bowl and the life tenure system, bravely carry out an optimum labor organization, and reduce the surplus personnel of enterprises. In carrying out reorganization, we should decide who should stay and who should leave openly and fairly. In arranging for surplus personnel, we should develop new products and tertiary industries, carry out job training, and adopt other measures to guarantee they have a way out. The third is the distribution system. Like township enterprises, we should bravely relax control to allow enterprises to decide their own distribution methods, widen the difference in payment, and fix no ceilings or bottom line so distribution according to work can be truly implemented, and various forms of the "common big pot" can be eliminated. All contracted or leased enterprises where conditions permit may follow the aforementioned measures for the three areas.

To become invigorated like township enterprises, large enterprises should also bring the relations between the state and the enterprise into balance, and gradually lift control over management. Judged from both internal and the external conditions, the problems in mechanisms and systems, respectively, are the reasons why large enterprises cannot be invigorated. Another important reason is a failure to separate government functions from business management, and a too rigid control. Comrade Ziyang said that large enterprises should follow the road of "sole responsibility for profits and losses, relaxed control over management, and market regulation." From now on, instead of allowing large and medium-sized enterprises to share more profits or to reduce tax payment, the state should provide more favorable conditions for enterprises to invigorate themselves. We should conduct brave explorations and experiments in this work. It is suggested that various prefectures and cities select a few large enterprises to experiment with the "special enterprise" method. After experiences are gained, we should popularize them in large areas. In line with the demands of the "enterprise law," we should truly delegate to enterprises the power they are entitled to, and should never withhold it. If these enterprises manage according to law, and pay taxes according to regulations, no departments or regions should exercise administration over them. In this way,

these enterprises will truly become independent "enterprises without higher authorities." Holding the responsibility for their own profits and losses, enterprises may issue high wages and bonuses if their performance is poor. This experiment might involve some risks, but we should be willing to take them so that these "special enterprises" can be truly invigorated.

Third, we should actively promote enterprise annexation to solve the problem of enterprise deficits. To solve the problem of poor economic results of enterprises, we should pay attention to both the enterprises which earn large amounts of profits, and those which suffer deficits. In the first half of this year, 450 or 27.8 percent of our province's budgetary enterprises suffered losses. Having a large number of losing enterprises is a long-standing serious problem bothering our province's economy. So far, 70 pairs of state budgetary enterprises throughout the province have annexed. There are also township collective enterprises which annex state enterprises. Annexation is also an important measure to carry out rapid technical transformation, and improve managerial levels.

Under the circumstances in which the social guarantee system is not perfect enough, advocating the path of having enterprises amalgamate with others will reduce some social repercussions. Thus, all cities and prefectures should analyze money-losing enterprises sequentially as soon as possible, and arrange them according to their categories. The system of fixing deficit quotas should be arranged among enterprises that suffer deficits due to policies. Enterprises that suffer deficits due to poor management should turn deficits into profits within a fixed time and shall never enjoy financial subsidies. Enterprises without methods to change their great deficit situation should be resolutely amalgamated with others or sold by auction. Enterprises should be amalgamated with each other strictly in line with the principle of "voluntary participation, mutual benefits, and development" and the principle of "enthusiasm and reliability." We should formulate, as soon as possible, regulations on amalgamating enterprises that are suitable to our province's situation, and submit them to the provincial government and the provincial People's Congress for discussion and decision to guarantee the amalgamation of enterprises with law, policies, and systems.

Fourth, we should positively create conditions and employ a share-holding system. Implementing the shareholding system is conducive to solving enterprises' problems concerning lack of developmental funds, putting social floating funds into production and management spheres, alleviating consumption, drawing more people's increasing attention to enterprises, and separating party functions from enterprise management. During his inspection tour in our province, Comrade Ziyang positively advocated the share-holding system. So, we have further emancipated our minds to use the system. Our general idea is to break through to employ the system. Pilot reform areas are allowed to use the system ahead of

others and to expand their scale and steps to implement it. Meanwhile, other areas are allowed to use the system among some selected enterprises. Regarding the practice of using the share-holding system, enterprises can divide their funds into shares owned by the state, enterprises, society, and individuals to form an overall enterprise ownership pattern. While determining the fixed assets of enterprises' shareholders, we should go through the legal procedures of clearing property, checking capital, and determining shares to ensure the protection of state interests and keep enterprises from suffering deficits. Enterprises that are given profit-earning cash awards for more than 4 months should transfer a portion of cash awards to the shares of staff and workers. Enterprises that use the share-holding system should balance both internal and external relations. It is necessary to correspondingly reform the enterprise leadership system. Principal enterprise departments should be adapted to this change, strive not to intervene in enterprise affairs, and strengthen service.

Fifth, plant directors' central role should be defined, and enterprises' inherent leadership system should be reformed. In the latter half of this year, large and medium-sized state enterprises across the province should generally resolve these problems. Large plants are allowed to employ the system whereby party committee secretaries can hold a concurrent post of deputy plant directors. The method under which a plant director can hold a concurrent post of party committee secretary can be used among small plants when the plant directors are party members. If plant directors are not party members, secretaries can be elected through democratic election on the premise of not totally being released from production or being partially withdrawn from production. This is not only conducive to ensuring plant director's central role but is also conducive to ensuring party committee secretaries engage themselves in party work. By so doing the two civilizations can be organically linked with each other.

**3. We should persist in the principle of cooperation with the south and opening to the north to develop good trade with the Soviet Union.**

Comrades Ziyang and Qili affirmed our province's strategic ideology of conducting cooperation with the places south of the province and opening to the places north of the province.

Since the beginning of this year, Heilongjiang has maintained a good trend of developing trade and conducting economic and technological cooperation with the Soviet Union. However, viewing the general situation, we have only started this and we are still in the preparatory and initial stage of the work in some fields.

If we develop Sino-Soviet trade well, Heilongjiang's economy will be enlivened and our province can be changed from its role as an inland and border province

into an open frontier area. The development of Sino-Soviet trade is conducive to accelerating the pace of developing export-oriented economy, upgrading our ability to participate in international market competitions, promoting our province's cooperation with the south, and creating a good opportunity for our province to develop lateral economic cooperation with all directions and bring in capital, technology, and skilled persons.

The role played by trade with the Soviet Union in promoting the entire provincial economic development cannot be brought into full play overnight; however, this role will certainly become greater and greater along with the constant expansion of the trade scale and sphere.

In developing trade with the Soviet Union, our province should firmly foster the idea of "small port and large market," and should approach problems and study countermeasures in line with the situation on the domestic and international markets. In addition, we should foster the idea that the north and south comply with and serve as a springboard for each other; should firmly use the opening to the north to attract the cooperation with the south and use the cooperation with the south to promote the opening to the north; and should depend on the advantages of the north to expand the cooperation with the southeast coastal areas to enable our province's products to be sold to the south and the products of the south to be sold to the north.

We should firmly and unswervingly take the road of cooperation. All areas, cities, and counties in the province's borders should sincerely and genuinely welcome and receive the persons of other areas seeking to establish trade contacts with these border areas in order to commonly develop trade with the Soviet Union in line with the principles of helping supply each other's needs and making up each other's deficiencies. Provincial authorities should create convenient conditions for these persons to build trade exhibitions, plants, and processing zones or to conduct trade activities in border areas. Meanwhile, the provincial authorities should concede benefits and give preferential treatment to these persons so that both sides will have good prospects for profits.

At the beginning stage in particular, we must be willing to concede profits to others to make the border areas of our province more attractive than those of other provinces.

**4. We should be meticulous in organizing industrial and agricultural production, and pay attention to combating natural disasters in order to ensure a bumper harvest this year.**

There were both good and bad news in Heilongjiang's economic development in the first half of this year. Industrial production developed steadily and coordinatedly, and economic efficiency improved somewhat; the sowing time of crops was delayed, but the growing

situation of seedlings was relatively good; the total volume of investment in fixed assets increased, however, the investment in the local capital construction declined; the source of commodities increased, and market was relatively brisk; and financial revenues increased and more currency was put on the market. However, there were also some problems meriting our attention. In the field of industrial production, industrial production developed unevenly in various prefectures and cities, and shortages of raw materials, power resources, funds, and transport capacity were serious. Finished industrial products were kept long in stock, and seriously unmarketable, thus occupying more funds. The cost of comparable products went up continuously, the consumption of raw materials increased, and the number of money-losing enterprises and deficits of these enterprises tended to increase. In the field of agricultural production, the sowing time was delayed, the crop-growing areas decreased, the waterlogged areas expanded, and discarded farmland increased. The quality of rush-planting and farming was not high, and material input in the farmlands during the spring plowing period decreased. It can be said that we are confronted with an extremely arduous task to fulfill this year's targets for industrial and agricultural production and to ensure a stable increase in economic efficiency. And this is very critical to the pricing and wage reforms which will be initiated next year in succession. Therefore, we must have a clear understanding of this.

At present, Heilongjiang's agricultural production is being seriously affected by disasters and is being confronted with a difficult situation. Since April, some 49.9 million mu of farmland was afflicted by windstorm, hailstorm, rainstorm, and insect pest, of which, 7.02 million mu was left unharvestable. According to a weather forecast by the meteorological departments, the province will probably see heavy rainfalls, and the damages by floods and waterlogging will become more serious. We must mobilize the masses to resolutely combat natural disasters by fostering the idea of striving for bumper harvest through the endeavor to combat disasters throughout the year. Recently, disaster-afflicted cities, prefectures, and counties have sent personnel to report on the disaster situation to pertinent departments of the province with a view to seeking support. All pertinent departments at the provincial level must earnestly receive personnel from these disaster areas, and should do their best to render highly-efficient service to these areas. At the same time, the provincial departments concerned should rapidly organize disaster relief groups to conduct investigation at disaster areas, and should go to the frontline of agricultural production to voluntarily help disaster prefectures and cities combat disasters and send disaster relief.

Areas suffering from serious disasters must carefully implement measures for preventing floods and draining flooded fields and promoting early ripening of crops. As for the peasants in the disaster-ridden areas, in addition to receiving necessary support from the state, we must

actively organize various ways to create income, find more ways to open up new avenues to earn money, strive to make up for the losses in one industry with the efforts of various industries, and realize the goal of reducing production but not income. Based on investigations and study, the financial, trade, and grain departments should in a timely manner analyze and forecast the situation in purchasing this year's autumn agricultural and sideline products and in commodity circulation, adopt effective measures, and prevent the phenomenon of having difficulties in buying and selling commodities. The policies for purchasing autumn grain must be studied as soon as possible in line with the trend of thought of establishing a new order in the rural commodity economy and strive to put them into practice. To stabilize agriculture, we must stabilize the market and the people's minds. Therefore, the current overall situation is to grasp agriculture and to combat disasters in an effort to reap a bumper harvest. All localities should proceed from this overall situation, strike a green light in the disaster areas to save themselves through production, and realistically help peasants in the disaster areas to overcome difficulties.

As a big province with rich agricultural resources, our province's average per-capita arable land is comparatively large. The inter-regional economic situation is uneven and the township enterprises are not developed, which are quite different from other provinces inside Shanghai-guan. During his visit to our province, Comrade Ziyang requested that we proceed from Heilongjiang's characteristics and study a way for the long-term agricultural development. We should strive to rapidly conduct investigations and study and enable our province's agriculture to gradually, consciously, and rapidly develop along a correct path.

##### **5. We should actively create a good social environment for eliminating barriers in price and wage reforms.**

In order to prepare for eliminating barriers in price and wage reforms, in addition to deepening reform and raising enterprises' economic results, we must create a good social environment. At present, we must actively do the following fields of work well. First, we must improve and strengthen ideological and political work, universally conduct education on eliminating barriers through discussing the criterion of productive forces, raise the ability of the broad masses of workers to withstand the strains of reform, and form a sound ideological environment for public opinions. Second, on the basis of establishing a new order for the socialist commodity economy, we must comprehensively improve social order, deal heavy and rapid blows to serious criminal offenses and economic crimes in line with the law, and create a stable social environment. Third, we should actively promote those measures which have been proved feasible and effective by the general public, and solve the issue of keeping the party and government organs honest and clean.

The issue of keeping the party and government organs honest and clean is one of the issues on which the masses have strong comments. Solving this issue is an important social condition for eliminating the dangerous barriers in the price and wage reforms. In this connection, I want to touch on four points:

First, we should conscientiously organize party members, particularly leading cadres to study the guidelines of the central documents, clearly define the policy limits, keep in touch with the reality, and examine the problems of dishonesty by making comparisons.

Second, we should comprehensively promote those measures that are recognized by the general public. We already have many good experiences in this regard. We should timely promote some typical experiences which have been proven effective to the whole area. In the second half of this year, we should universally promote throughout the province some open measures in 10 aspects, such as settling the people in cities and towns, dealing with industrial and commercial licenses, issuing loans, taking examinations for driving licenses, collecting taxes, examining and approving land leasing, assessing and determining professional titles, employing cadres, recruiting workers, and appraising public security cadres and policemen.

On the basis of summing up typical experiences, all competent departments should formulate some specific and detailed regulations to have them universally popularized. As soon as the open measures are established, the discipline inspection and supervision departments should conduct strict supervision and inspection, prevent formalism and flourishes, guarantee the implementation of the measures, and publicly deal with personnel who violate the systems in an effort to win the people's trust.

Third, we should improve the system under which the party and government organs are not permitted to engage in commerce or to run enterprises. The party committees and government at all levels should organize forces to conscientiously sort out companies of various descriptions in line with the speeches given by the central leading comrades and the guidelines of the circular issued by the General Office of the CPC Central Committee. Those who have already operated enterprises must comprehensively terminate their contacts with the party and government organs in terms of personnel, finance, and materials supply. The organs should not support them with funds or request them to hand in money or articles. Party and government cadres, including those who have already retreated to the second line, are not permitted to assume posts or take remuneration from all kinds of enterprises, with the exception of those cases which are specially prescribed by the central authorities and the State Council. Companies of various descriptions that use two prices to engage in profiteering must be banned. In the future, no new companies of various kinds will be approved.

**POLITICAL**

Fourth, we should strengthen supervision by the masses. The people's letters and visits accepted and filed by the press units, and radio and television stations, which cover the major cases of cadres of party and government organs, such as taking bribes and bending the law, abusing powers to extort money or creating difficulties for the people and moral degeneration, after being verified, may be listed as priority matters of the party committees and governments of the corresponding level. In line with the central demands, the discipline inspection and supervision departments at and above the county level should set up accusation centers and let the masses expose the law violation and irregularities involving officials of state organs. In doing this, we must strive to be scientific, pay attention to actual results, and see to it that no "second visits or letters" are paid by the masses and "no cases are needed to be transferred to the next units." The deputy secretaries general of the provincial party committee and government in charge of

handling people's letters and visits must take the lead in the work, regularly convene joint office meetings of the departments in charge of handling letters and visits as well as the discipline inspection and supervision departments to study major cases, handle them separately according to their working ability, and prevent the phenomenon of shifting responsibilities onto others. The party committees and governments at all levels must resolutely support the work of the discipline inspection and supervision departments and create conditions for them to correctly exercise their functions and powers.

This is a study and implementation meeting. What I have just mentioned are several major issues concerning the work of the second half of this year. They are not the overall work plans. All departments should fully understand their own major problems in line with the reality of their own localities, departments, and units and make specific arrangements.

## NATIONAL AFFAIRS, POLICY

### Theory on Central Bank's Money Supply Control Policy

40060452 Beijing JINGJI YANJIU [ECONOMIC RESEARCH] in Chinese No 6, 20 Jun 88 p 43-50

[Article by Wan Cunzhi 5502 1317 4249, Department of Finance and Banking, Zhongnan Finance and Economics University: "Money, Price, and Economic Development—The Theoretic Basis For the Central Bank's Adjustment and Control of the Quantity of Money"]

[Text] One of the important functions of the central bank is to facilitate economic development by adjusting and controlling the money supply. In order to study and solve this problem, in theory, we must first clarify the relationship between money, prices, and economic development, and in practice, we must scientifically devise a procedure for the central bank to adjust and control the money supply.

#### I. The Relationship Between Money, Prices, and Economic Development

In a commodity economy, product price is the focus of the relationship between money and the economy. Without prices, the relationship between money and the economy will not exist. In the relation between money, prices, and economic development, we must distinguish among three issues: one, the relationship between money and prices; two, the relationship between prices and economic development; three, the relationship between inflation and economic development.

##### 1. The Relationship Between Money and Prices

###### 1. From the Point of Price Determination

Price is the general term for the commodity pricing system. The price of a commodity is the manifestation of the commodity's intrinsic value as represented by a certain unit of a particular currency. The price of a commodity is determined when the value of the commodity equals the value of the currency. The change in price of a commodity hinges on the change in the value of the commodity as well as on the change in the value of the currency. Normally, the correlation between product price and product value is positive, and the correlation between product price and currency value is negative. Here, we are examining the relationship between money and product prices, so the first fundamental concept we must grasp is the inverse relationship between the change in the price level and the change in the intrinsic value of money.

###### 2. From the Perspective of the Dynamics of Circulation

Let us assume that the intrinsic value of money remains constant, then according to the law of circulation of money, the relationship between money and prices is the

determination of the quantity of money in circulation by the total price of all the commodities (ignoring the velocity of money circulation for the time being). Marx said, "Any scientific study of the relationship between the circulation of money and the change in product price must assume that the material used to coin money has constant value."<sup>1</sup> Under this premise, the change in the price level is the cause, and the change in the quantity of money in circulation is the effect. In the circulation of metal money, because gold coins have 100 percent value, this premise is valid and the conclusion is sound.

However, in the circulation of paper money or fiat money, because neither kind of currencies can be freely converted into gold coins, the intrinsic value of the currency is determined by the quantity in circulation. The change in the value of the currency is inversely related to the change in its quantity. Under government monopoly of currency issuance, as long as the central bank can effectively control the money supply—by keeping the quantity of money in circulation within a reasonable scope, we have reason to assume that the value of the currency is basically stable. Conversely, if the central bank cannot effectively control the money supply, due to factors beyond its control, then the quantity of money in circulation cannot meet the needs of economic development. In terms of the quantity demand for money, as the quantity of money in circulation increases, the value of money falls; as the quantity of money in circulation decreases, the value of money rises. The change in the value of money is inversely related to the change in product prices. In this case, the change in the quantity of money is the cause, and the change in the price level is the effect. Therefore, we must grasp a second basic concept—in today's circulation of fiat money, the price level is determined by the quantity of money, and vice versa.

###### 3. The Focus of the Money Supply and Product Price Issues

The focus of the money supply and product price issues is the direct relationship between the optimal quantity of money and the reasonable price level. The quantity of money can be controlled, but despite the government's efforts to control the price level, prices cannot always be kept within the expected scope. As Milton Friedman, a leading monetary economist, said, "the optimum behavior of the price level, in particular, has been discussed for at least a century, though no definite and demonstrable answer has been reached."<sup>2</sup> Therefore, in a certain sense, the product price issue is much more difficult than the money issue.

The price level is the basic standard which determines whether a quantity of money is optimum. Excess money supply will directly or indirectly affect the price level sooner or later. But are all changes in the price level the result of changes in the money supply? No. Excess money supply will definitely lead to higher prices, but

not all price increases signify excess money supply, because there are non-money factors which can cause prices to rise. This is the third basic concept we should grasp.

The primary non-inflationary factor behind price increases is price rigidity. All internal mechanisms other than labor productivity and the money supply which cause prices to rise are termed price rigidity. I have discussed the cause of price rigidity elsewhere,<sup>3</sup> and I will not repeat myself here. The issue here is to find out the extent of the effect of price rigidity. Because this issue has never been properly resolved in theory, and in practice, people have generally depended on experience, and in standard research as well as in empirical studies, nobody has come up with the convincing quantitative limits, it has been very difficult for us to make economic decisions. On the one hand, it is difficult to decide on the proper amount of money supply, and on the other hand, if we lose control of the money supply, it will cause product prices to change spontaneously, and these changes are often unpredictable, making it difficult for people to make adjustments.

## 2. The Relationship Between Product Prices and Economic Development

In a commodity economy, the rise in the price level is always accompanied by economic growth. All available historical materials on product prices indicate that during the course of economic development, the price level inevitably is steady but rising.<sup>4</sup> On the issue of the relationship between prices and economic development, we have to emphasize two important points. One is we must understand correctly the issue of price increase in the course of economic development, and the other is to carefully establish what is a tolerable amount of price increase.

We shall first discuss the correct understanding of price increase in the course of economic development. Product prices by themselves have no meaning. We must examine product prices in the context of the course of economic development. In my opinion, with the exception of runaway inflation, price increase under normal conditions is not threatening. Runaway inflation usually occurs during war time, as in Germany during World War I, and in China under the Guomindang regime. In these situations, runaway inflation reflects economic abnormalities, and it calls for special handling. Here we are exploring normal economic conditions, so the issue of runaway inflation can be put aside. Under normal conditions, price increase is not threatening, because contrary to what some people may have imagined, prices will not go haywire if control is lifted. Some comrades have compared China's price management to an underwater calabash that cannot be released, because if released, it will inflate. Little do they know that if the underwater calabash is released, it will immediately rise to the top, but no matter how far it may rise, it can never rise above the water level. As soon as its environment is

stabilized, it will float. Product prices work in exactly the same way. For example, in Hong Kong, except for increases in the price of food, water, electricity, telephone, ferry, and postage, which require government approval, all commodity prices and fees are regulated by the market. The special feature of the market is everything moves naturally. In this environment, prices can rise too, but within limits. Statistics show that the consumer price index rose 3.9 percent, 5.5 percent, and 5.8 percent for each year between 1976 and 1978, respectively, and the real wage increased an average of 7.1 percent per year, and at the same time, the economy grew at an average rate of 10 percent per year. In Hong Kong, the fact that wages are pegged to product prices has not caused a wage-price increase spiral, and there is no inflation nor vicious economic cycles. This is because wages are always adjusted after prices have gone up. Wage adjustments usually stimulate the workers' enthusiasm and promote economic growth.<sup>5</sup> Take Guangdong as another example. At one time, the province lifted control on fish prices, and shortly thereafter, prices skyrocketed, but soon they settled down. Thus, price increases within a certain range should pose no threat, and the only threat comes from our implementing the wrong countermeasures which create manmade turbulence. For example, if in order to keep prices from rising, we implement price control on the one hand, and on the other hand, we tighten the money supply to suppress demand, the result will be acute shortage of goods due to price control, and enterprises too will be immobilized by the tight money situation. Under this kind of economic friction, we will be forced to improve our control method by easing control selectively, but because of competition for profit and imperfection in the system, even though objectively we want to lift control only selectively, in the end, all controls will be lifted, directly or indirectly. Beyond a certain point, the lack of control again causes problems which will bring back more control. The people end up paying a high price psychologically for this kind of inconsistency, and the problem remains basically unsolved.

In my opinion, as the economy develops, it is inevitable that prices will rise. We should make a distinction between two kinds of price increases. One is price increase due to inflation, and the other is price increase caused by price rigidity. The former, theoretically, can be controlled, but the latter is inevitable under the law of economics. In reality, however, the two kinds of price increases are indistinguishable, and under the circumstance, we have to carefully establish the tolerable amount of price increase.

The amount of price increase which the people can tolerate depends on two elements. One, the level of economic development, and two, the magnitude of price increase. Qualitatively, people can tolerate price increase as long as there is still economic growth, and as long as the price increase does not affect their standard of living. In considering the people's standard of living from the perspective of economic development, we must keep in

mind one basic principle, that is, we must have food on the table, and we must continue to build up society. Thus, let  $G$  be the rate of increase in nominal income (monetary income,) let  $P$  be the rate of increase in price of consumption goods, and let  $E$  be the rate of increase in labor productivity. A mathematical model of inflation that people can tolerate is:

$$1. \quad G > P$$

$$2. \quad \frac{G}{(1+P)} < E$$

Since under normal conditions, product prices cannot plummet suddenly, therefore,  $(1+P) \neq 0$ . Thus, equation (2) can be written as:

$$3. \quad \frac{(G-E)}{E} < P$$

4. Combining equations (1) and (3), we obtain  $G - E$

$$\frac{G-E}{E} < P < G$$

Equation (4) sets the boundaries to the people's ability to tolerate price increases. Price increase beyond the set  $\left(\frac{G-E}{E}, G\right)$  is excessive.

Since price increases are inevitable during the course of economic development, is there any real sense in the central bank's efforts to control product prices by means of monetary policy? The answer is yes. The central bank's monetary policy can prevent the kind of price increase caused by inflation. Price increase resulting from price rigidity is a manifestation of economic laws and is natural during the course of economic growth, and thus it has no ill effect on economic growth, but inflationary price increases are detrimental to economic growth.

### 3. The Relationship Between Inflation and Economic Development

On the issue of the relationship between inflation and economic development, from the time of the Keynesian school, there has been a strong theoretical thought which maintains that economic development can be stimulated by increasing the money supply. In other words, as long as runaway inflation is not triggered, mild inflation can promote economic growth. Personally, I disagree with this view.

First, we must clarify one phenomenon. Many developed and developing nations experienced higher prices as their economy began to take off, and this seems to prove that mild inflation can indeed stimulate economic growth. But this is a false assumption, because in most countries or regions, the economy took off during the transition from a controlled economy to a market economy. During the transition process, the inflationary

pressure under the controlled economy was released into the market economy because of the more flexible policy, and this caused prices to rise. Therefore, even though economic growth is often accompanied by rising prices, it does not mean economic development is brought about by the higher prices. Rather, it is the manifestation of the release of the repressed inflationary pressure during the course of economic development.

Second, we should clarify some empirical materials which can help us analyze the issues more thoroughly: (i) Greater increase in money supply is always accompanied by larger price increases. Smaller increase in the money supply is accompanied by smaller increases in prices. This clearly demonstrates that in reality, excess money supply always causes higher prices. There is a definite correlations between the money supply and the price level. (ii) There is a negative correlation between the rate of inflation and the rate of economic growth. (iii) The same rate of inflation may accompany different rates of economic growth. (iv) The same rate of economic growth may be accompanied by different rates of price increase. Furthermore, in reality, there is no evidence of a high rate of inflation accompanied by a high rate of economic growth. These facts show that there is no precedent to prove that inflation promotes economic development. There is no factual basis to support the view that we can stimulate economic growth by increasing the money supply alone, and more often, a high rate of inflation is accompanied by low rate of real economic growth. This is generally known as "stagflation."

Finally, we must understand inflation and economic growth from a more advanced, theoretical, level. There are two important points about the relationship between the quantity of money and economic development which must be clarified: one, is inflation a necessary occurrence in the course of economic development? Two, can inflation promote economic development?

To answer the first question, I believe that in the course of economic development, as long as the increase in money supply is not excessive, inflation will not be triggered. Conversely, excessive increase in the money supply inevitably is inflationary. Here, we must take care not to equate inflation with price increase, otherwise the relationship between the two will be misconstrued and will lead to the wrong decisions.

To answer the second question, we must first determine whether we are talking about nominal economic growth or real economic growth. Nominal economic growth is based on the current year's prices. Inflation can generate nominal economic growth. This is obvious. Real economic growth is based on constant prices, and this eliminates the effect of inflation. Not only can inflation not promote, it actually hampers, economic growth. The reasons are: (i) inflation leads to the redistribution of social resources. This destroys the existing proportional relationships among the different sectors in the economy and undermines the smooth development of the entire

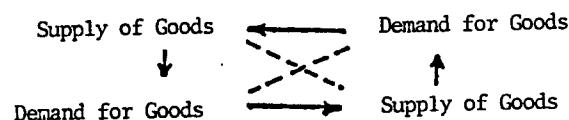
social reproduction process, and may even cause abnormalities in the economic development. (ii) In an inflationary situation, no matter how mild, people will try their best to avoid losses. On the one hand, they will speed up consumption which in turn speeds up the money circulation and increases the quantity of money, and the mild inflation will turn serious. On the other hand, people will begin to hoard goods instead of hold cash, and much of society's materials and wealth will be controlled by the public, and many of society's resources will be misused and wasted, and as a result society cannot reach the expected level of economic development. (iii) Inflation distorts the standard by which value is measured. This undermines the economic accounting of society's reproduction links so that we can no longer accurately assess the level and the progress of economic performance, and furthermore, it undermines our effort to improve business management and optimize the components in the course of business and production, and this will raise the opportunity cost and undermine the development of productions. (iv) Money is not an actual reproductive element; it is only a medium which facilitate the integration of all the productive elements. Therefore, from the perspective of real economic growth, there is no direct internal relationship between money and economic growth. Money cannot directly promote economic growth. Money can stimulate economic growth only through several intermediate links, such as exchange, allocation, work, and production. If any of these links is affected by inflation, for the above three reasons, the economy will not achieve healthy development. Therefore, increasing the money supply alone and implementing an inflationary policy to promote economic growth is unsound in theory and dangerous in practice.

In order to promote economic development, we must control inflation. Reality proves that controlling inflation in the course of economic development is by no means an easy task. In fact, every country has made controlling inflation the objective of its economic policies, and no country has successfully controlled inflation. There are political and economic reasons as well as problems with policy implementation. In addition, the failure to control inflation is not due simply to a single reason. Rather, two or more factors interact to form many complex conditions which change as soon as economic conditions change. A scholar once said, "to try to clarify all the details about inflation is as difficult as 'Gedebahe's [0766 1795 1572 6378] Conjecture' in mathematics."<sup>6</sup>

There are always problems, and all problems can eventually be solved. In the next section, we shall explore two separate issues. One, the rules in the central bank's proper choice of policy in controlling the money supply, and two, the central bank's technique in implementing its monetary control policy.

## II. Rules in the Central Bank's Choice of Policy in Controlling the Money Supply<sup>7</sup>

In the central bank's strategy to maintain macroeconomic equilibrium, it has to make decisions on how to adjust and control the money supply. Macroeconomic equilibrium is where the supply and demand for goods and the supply and demand for money are balanced. Their relationship is depicted in the following diagram:



We call the diagram the "quadrilateral of the macroeconomic process." This quadrilateral depicts the following fundamentals: (1) The supply of goods generates the demand for money. Based on the law of circulation of money, if the velocity of money circulation is constant, then there is a fixed proportional relationship between the supply of goods and the demand for money. (2) To ensure the normal circulation of money, objectively, the supply of money should equal the demand for money. (3) The supply of money generates demand for goods. The demand for goods is the total sum of money the consumers, including the state, enterprises, and individual citizens, can afford to spend. (4) The demand for goods requires a reciprocal supply of goods.

In the four sets of economic relationships just described, because factors which determine the supply and demand for money are not the same factors which determine the supply and demand for goods, and the channels which circulate money are not the same channels which circulate goods, balance in money supply and demand is not equivalent to balance in supply and demand of goods. The two are more often in a state of disequilibrium. More typical are the following two situations.

One, assume the money supply equals demand, that is, the money supply and demand are in equilibrium. However, a portion of the money in circulation is frozen in the hands of the consumers (taken out of circulation) either as savings or for delayed purchases or as cash in hand to meet emergency needs. This inevitably reduces the consumers' current demand for goods, and the current supply must exceed the current demand in the goods market.

Two, from the point of the overall volume, even if the money supply equals demand, and even if the demand for money is equivalent to the supply of goods and the demand for goods is equivalent to the money supply, because in actual economic life, changes in the industrial

structure always lag behind changes in the mix of the consumers' demand, the mix of goods being offered often is not the same mix demanded by the consumers, and therefore a portion of the goods are not marketable and are stockpiled, and ultimately at any point in time, the supply of goods is always smaller than the demand, that is, there is excess demand.

Therefore, in the market, even if the supply and demand for money are in equilibrium, the supply and demand for goods may not be in equilibrium. Under this situation, the central bank should not attempt to balance the money supply and demand at the low level; instead, it should implement a monetary policy to balance the supply and demand for goods. The central bank's monetary policy must distinguish between different situations, and all policies must have specific goals and should not be enacted at random. To achieve macroeconomic balance, the central bank's proper choice of monetary policies should be based on the following three rules.

### 1. Keeping the Top Line Balanced

The rule of keeping the top line balanced means, if for any reason, money supply-demand equilibrium and product supply-demand equilibrium cannot be attained simultaneously, the emphasis, or objective, of macroeconomic control should be to balance the top line of the macroeconomic quadrilateral, that is, keep the supply and demand of goods balanced.

i. This is mandated by the ultimate goal of all human economic activities. Ultimately, all human economic activities aim to satisfy the needs of survival and development. This gives rise to two extreme ends—production versus consumption. Production generates supply of goods, and consumption generates demand for goods. The unity of production and consumption is the equilibrium of supply and demand for goods. Money is a commodity which has been separated from other goods during the historical development of commodity exchange. As an ordinary form of value, money is not edible nor can it keep us warm. Therefore, in order to satisfy the needs of survival and development, people must first balance the supply-demand of goods.

ii. Keeping the supply and demand of goods balanced is the basic starting point which guarantees the smooth course of society's reproduction process. Equilibrium of supply and demand of goods means that, from the point of society as a whole, all products can be compensated and realized in value and in kind. To study the issue of product compensation and realization, as Marx said, "Naturally, what we should analyze is the formula W' 'in the W—W' process, by determining the change in the value of the product W', we can better understand society's reproduction conditions."<sup>8</sup> Thus, Marx used the balance in the supply and demand of goods as the starting point in his analysis of society's reproduction

process. Since money itself is not a means of production in reality, it has a supply-demand equilibrium problem only when it is acting as a medium for the other goods.

### 2. The Main Diagonal Rule

The main diagonal rule means that if the supply and demand of goods are unbalanced, efforts to restore balance by macroeconomic control measures should be focused on the upper left corner (commodity supply) and the lower right corner (money supply) of the "quadrilateral of the macroeconomic process." This is because: (i) the demand for money in the lower left corner is determined by the supply of goods. The demand for money changes only when supply of goods changes. The change in the demand for money always falls in step with the change in the supply of goods, and therefore, the demand for money is not manipulatable. (ii) The demand for goods in the upper right corner is derived from the supply of money, and its change is governed by the change in the money supply. Their relationship can be likened to the source and the flow of a river: the money supply is the source and the demand for goods is the flow. To block the flow, we must stop the source. That means, if we want to adjust the demand for goods, we must manipulate the money supply.

However, when the economy is out of balance and we want to apply the main diagonal rule, we must still make a distinction between two conditions: one, when the economic disequilibrium is in the form of excess supply of goods, the macroeconomic control measure should focus on the lower right corner—increase the money supply. The monetary policy should emphasize total expansion. Two, when economic imbalance is manifested in smaller supply of goods than demand, that is, when there is excess demand in society, the macroeconomic control should focus on the upper left corner, that is, increase supply. In this situation, if we attempt to manipulate the lower right corner—reduce money supply to suppress demand for goods, we may suffer two consequences: (i) the reduction in the money supply produces a tight money situation which suppresses the people's demand for consumption, but at the same time, it also reduces investment demands. From the point of short-term economic effects, this measure may keep the supply and demand of goods balanced in the current year, but in the long-run, reduction in investments will reduce productive capacity in the next year or the next several years, and the supply of goods will be reduced. This will exacerbate the supply-demand imbalance. (ii) The contraction in the money supply will aggravate the imbalance in the industrial structure and the incongruity between the supply-mix of goods and the demand-mix. Therefore, under this situation, the monetary policy should not aim to tighten the total money supply; instead it should focus on structural adjustments by coordinating with an industrial policy to give priority to the development of industries and products in short-supply.

As for the basis of the structural monetary policy, we must comply with the following rule:

### 3. The Zero-Base Rule

The so-called zero-base rule means when the demand for goods exceeds supply, the central bank should adopt a structural monetary policy which complies with the principle of letting bygones be bygones. Specifically, the bank should not attempt to recall loans in order to tighten the money supply which is already in circulation. The economic mechanisms have a self-immunizing capacity, and we can be sure that past economic conditions can balance themselves. The central bank's structural monetary policy should focus on controlling the new money supply—the direction and volume of new loans. The reasons are: (i) China's banks and enterprises have a simple asset structure, and there is basically no other effective asset substitutes. The banks' ability to extend and recall loans is directly dependent on the production and business cycles of enterprises. The banks can try, but they will not succeed if they suddenly put on the brakes and force enterprises to repay their loans before the end of their production or business cycle. (ii) Even if they manage to get back the loan money, it is the enterprises with good economic performance that are being squeezed. Enterprises with slow asset turnover, those with poor economic performance, simply cannot repay their bank loans. In this way, enterprises with good economic performance are being hurt and enterprises doing poorly will survive. The economy as a whole will "slip." Conversely, if we comply with the zero-base rule, and since we cannot get back the loan money from those enterprises with poor economic performance, we should cut off their new loans and refuse to give them new blood, so that they eventually will be eliminated through self-consumption. On the other hand, we should give credit preference to enterprises with good economic performance, especially enterprises producing goods which are in short-supply, and guarantee ample funds for their development and give impetus to production. In this way, the continuity in the economic cycle will not be disrupted, and we can avoid excessive economic fluctuations. Perhaps we will encounter the following condition: while the economy continues to develop at a steady pace, it will be accompanied by rising prices. This is not at all a threatening situation. It only indicates that the economy was out of balance before but is reaching a new balance now. This is preferable to our experience in the latter half of 1985 and the early part of 1986 when the economy was "slipping" but prices continued to climb.

After the central bank has selected the best monetary policy for the situation, we have to study how the bank should implement the policy to control the money supply, because the rules for selecting a policy only tell us which direction the central bank should tackle under specific conditions, but they do not explain the procedure and the method for controlling the money supply.

## III. The Operating Procedure in the Central Bank's Control of the Money Supply

I have written a previous article on the operating procedure of the central bank's control of the money supply.<sup>9</sup> Basically, we should: (i) establish the quantitative relationship between the total loan volume and the amount of money in circulation; (ii) pinpoint the portion of the total loan volume which requires indirect control; (iii) define the extent of the effect of non-policy factor, that is, the economic factors, on the loan scale; (iv) handle properly the adjustment and control of all the variables in a policy. To supplement and perfect the above concepts, we shall briefly discuss the following two issues:

### 1. Adopt the "Growth Within a Value Domain" Method To Control the Money Supply

In the past, we have always controlled the money supply by setting an absolute quota. Once the quota is fixed, in principle, there can be no deviations. This is not a sound method, because it seeks static balance which does not reflect the entire economic process. Because the method itself is not scientific, and if the actual results should deviate from our expectations, we become very nervous. In fact, static equilibrium is only an analytical tool, and the result it seeks is only a theoretical expectation. In reality, economic cycles seldom achieve static equilibrium.

A more scientific approach is to consider the whole issue as a quantitative change over a period of time. The control of the money supply should be base on specific conditions of economic growth in a certain period, and we should examine the relationship between money and the economy from the point of the rate of growth.

Meanwhile, because of the close relationship between money supply and product prices, and because price increase is tolerable within a limit, and within that limit, a little more or less money in circulation will not affect the normal functions of the economy, similarly, there is a value domain within which any change in the money supply is acceptable, that is, the optimal quantity of money supply is not a single number, rather it is a domain of numbers. By incorporating growth in the domain, the central bank can control the money supply by adopting a method of "growth within a value domain."

### 2. The Central Bank's Efforts To Control the Money Supply Should Strive for Society's Understanding and Support

In the past, the money supply quota has always been wrapped in a shroud of mystery. Not only the general public, but even those who study money issues were not told where the numbers came from. Under the situation, the central bank was given a mysterious mission and often it had to face a rebellious public. People adopted an attitude of "you have your policy, and I have my countermeasures." Thus, monetary policies have not met with much success.

The central bank's monetary policy ultimately embodies the welfare of the general public, directly or indirectly. The bank should make known its policy intentions, so that its policies are understood and supported by the general public. If its policies constantly are met with oppositions, it only makes implementations more difficult.

In short, in a commodity economy, the relationship between money, prices, and economic development is a major macroeconomic issue. If the central bank wants to promote economic growth by controlling the money supply and maintaining relative stability in product prices, it must select a proper policy according to the state of economic development and according to certain rules, and then it must follow specific procedure to apply the control measures scientifically. Besides the constraints of the financial system itself, the central bank's present macroeconomic control measures have two major problems. One is the wrong choice of policy and the other is the poor implementation technique. This article has been an attempt to analyze these two aspects and to seriously point out the right direction for solving the problems. Whether this goal can be realized is another matter.

#### Footnotes

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3. Please see this author's: "Exploring the Price Rigidity Issue," QINGHAI SHEHUI KEXUE [QINGHAI SOCIAL SCIENCES] No 4, 1987
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#### Establishing New Order of Commodity Economy

40060504 Beijing NONGMIN RIBAO in Chinese  
20 Jul 88 p 3

[Article by Chang Qing 1603 7230 and Lao Yingmin 1675 5391 2404: "On the Establishment of a New Order of Commodity Economy During the Transition to a New Mode"]

[Text] Economic order is the norm of society's economic functions. It is the way the main economic bodies carry out their economic activities under the laws of a specific economic system. The laws of an economic order is set by the nature of the economic system, and the economic system in turn must work within the economic order. The economic order is the support and guarantee of the economic system. The new mechanisms in the socialist commodity economy adjust to and rely on the economic order to guarantee the norm of economic activities under regular conditions.

Ten years of reform have brought historical changes to the country and to society; it is has been a huge success. But in the wake of the thorough reform and economic revitalization, a series of problems have also emerged. For example, speculation and profiteering in circulation channels, unfair allocation in society, attempts by some government workers to use their official power to seek private gain, violation of law and order and other practices have fomented dissatisfaction among the masses. Today, reform objectively requires that a new order of commodity economy be established. In the circumstances, because it is the critical link in stabilizing the economic situation and in furthering the reform efforts, the central government has made the timely decision to put the establishment of a new order of socialist commodity economy on the reform agenda as a crucial reform objective.

Nowadays, different people have different explanations for the disorder in our economic life. Some blame it on reform, and others think that disorder is a natural part of the early phase of the commodity economy. People also have different assessments of the new economic order. Some think that there may be some problems, but the merits outweigh the defects; others prefer the old order. We suggest that the problems should be analyzed in the context of the transition between the old and the new mode, and the direct causes should be carefully examined, and each situation warrants separate consideration. We can assess the new order only by comparing it with the old order.

#### The Economic Order Under the Old System

Under the old system, the economic order has the following characteristics:

One, a highly centralized decision-making process. Under the old system, power to make economic decisions was concentrated in the hands of the central

government. Individual decisions were limited to the purchase of some consumer goods (often purchase vouchers were required.) Other things such as jobs, schools, housing, and consumption were arranged by the administrative organs. All individuals had to do was to obey orders. Enterprises were appendages of the administrative organs, and all enterprise economic activities had to follow the higher administrative departments' plans. Production, sales and supply, individuals, goods and materials were at the disposal of the higher authorities, and even enterprise production was controlled from above. Institutions and other social organs strictly followed government documents. To them, government plans and documents were the law.

Two, the reliance on administrative measures as means of guarantee. In the well-developed nations of the West, economic order is guaranteed by the presence of laws. Under the old system in China, administrative measures were used to ensure economic order. People were scarcely aware of the legal system. An individual or an enterprise which upset the plans had to face disciplinary sanctions (except for criminal offense.) Administrative measures such as promotion and demotion, disciplinary sanctions, and party disciplines were used to guarantee proper performance of economic functions.

Three, behavior that shows little self-restraint. Under the old system, economic behavior was controlled by direct instructions from the government; there was no self-restraining mechanisms. Therefore, once the government released its control, order turned into chaos.

Under the old system, the economic order which depended on administrative measures was appropriate for a time when the country was concentrating all energy on economic construction; it had its historical functions. But now that the industrial system is basically complete and the commodity economy is fairly well-developed, this economic order has become grossly incompatible. Under the old system, there were already hints of disorder. Today's many problems are but old problems brought out to the open. For example, a planned economy does not and cannot have a plan for everything, and with the development of township enterprises, inevitably there will be planned versus extra-plan and other problems.

For an overall assessment, the old order is overly concentrated, and with only one means of guarantee, it is incompatible with the development of the commodity economy. It rendered the enterprises without vitality and the individuals without drive, and it was responsible for the poor economic results and the shortage of goods. This order does not promote the development of productive capacity, and should be abandoned.

### The New Order in the Commodity Economy

The new economic mechanisms to be established in tandem with the restructuring of the economic system, on the whole, should be mechanisms which let "the state regulate the market and the market guide enterprises." Therefore, the new economic order for the commodity economy we are about to establish should be a new standard which facilitates the perfection and development of the market system, which promotes enterprise competition and operation, and which suits the development of the commodity economy. It should have the following characteristics:

One, it should permit decision-making at different levels. An important part of the restructuring of the economic system is to "delegate power," and "revitalize" the economy. The new economic mechanisms emphasize the state's indirect control at the macroeconomic level. Therefore, the main economic bodies at every level, including the individual, enterprises, and local governments must have the right to make decisions. Individuals should have the right to control the use of their income, to purchase a house, choose their own occupation, give full play to the development of their intelligence and strength, and contribute to society. Enterprises should have ample rights to make independent decisions, including the right to decide how to utilize and dispose of their own assets and how to allocate the work force. They should be allowed to take advantage of their own superior factors and plan their production and management according to market conditions, and to maximize profit. The power of the local governments should be clearly defined to give play to local positive factors and regional advantages.

Two, the economic bodies must restrain their own behavior. Allowing decision-making at every level naturally requires that the main economic bodies balance their rights and responsibilities and restrain their own behavior. Under the new economic order, all economic bodies must have rights and responsibilities, and they should be allowed to compete openly, fairly, and freely in the socialist market. With the gradual formation of the socialist market system, market rules which regulate the behavior of the economic bodies will soon be perfected.

Three, it must embody a legal system. Under the new system, the state's control duty will no longer be in the form of direct administrative control through mandatory plans. Instead, it must utilize economic levers to apply indirect control at the macroeconomic level. Effective indirect control measures are guaranteed not by administrative orders but by a system of economic laws and regulations, by the enactment of policies and laws, and by institutionalizing, legalizing, and standardizing the economy and society.

The new order of the commodity economy is the product of the development of the commodity economy; it must meet the objective needs of the continuously developing

commodity economy. The establishment of a new order of commodity economy is, therefore, a gradual and orderly process. We cannot be too idealistic about the new order, nor can we expect instant perfection. The new order can only be perfected in the course of the development of the commodity economy.

#### Contradictions and Conflicts During the Transition Period

The old order was protected by using administrative measures to strictly guard against violations, but the new order must rely on the legal system, and the economic bodies have to restrain their own behavior. During reform, the old order and all the old mechanisms have been smashed, but the new control and balance mechanisms have not been established, and naturally this has given rise to series of contradictions and problems. At present, these contradictions and conflicts are manifested in the following ways:

1. The economic components are diverse but there is only one set of rules.

In the wake of the development of reform and opening up, the Chinese economy which used to tolerate only the public ownership system has gradually become a diverse economy. This is in direct conflict with the laws and regulations carried over from the old system which were meant for the management of the public ownership system. The economic behavior of the non-publicly owned sector of the economy has no legal basis, and inevitably there will be loopholes and frictions.

2. The dual price system. The dual price system is a transitional mode in China's price reform process, and at one time, it had some positive effects on the economy. But with the further development of the commodity economy, its flaws have become increasingly obvious. It has brought speculation and profiteering, bribery and corruption, and unfair allocation in society.

3. The multi-channel management of circulation is incompatible with imperfect market regulations.

The policy of reform and opening up has invigorated the multi-channel management of circulation, but because of the incompatible market control format and the poorly-developed market organization system, instead of open, fair, and free competition, multi-channel has turned out to mean secret transactions and haggling at every level. The diverse links have only increased the transaction cost and raised prices, and have led to embezzlement and corruption.

4. The binds of the old state-run economy have been removed, but new balancing mechanisms have not been established.

As a result of the efforts to simplify administration and delegate power and give enterprises more rights to make decisions, the main economic bodies have gained significant rights, but the new economic mechanisms have not been fully established, and assets continue to be put into the "same big pot," and the resulting "soft" budget prevents enterprises from taking full responsibility for their profits and losses. Furthermore, the lack of self-restraining mechanisms among the main economic bodies, the ineffective use of basic construction funds, the increased purchasing power of the social groups, and irregularities such as using public funds to host extravagant banquets, giving gifts in money or in kind, and celebrating the new year using public funds, to a certain extent, have all contributed to the higher cost of capital construction and consumption.

5. Old business habits left over from the old society is in conflict with the new concepts of the commodity economy.

Before the founding of the PRC, the Chinese economy had been for a long time a semi-feudal and semi-colonial economy. Old ways of conducting business are deeply entrenched. As reflected in the market activities, some people still act like market bullies, some try to outswindle each other, and others do business in an underhanded way. These vestiges of old ideologies pose many obstacles for establishing the socialist market order.

Many factors contribute to the above conflicts and contradictions:

First, there are certain historical factors. China built her socialist system directly on top of a semi-feudal, semi-colonial foundation, without the benefit of a historical process of commodity economy and development, and vestiges of old Chinese feudalism and old business habits can still make their presence felt in the economy.

Second, the old system's inherent problems are being brought out to the open. For example, the dual price system in effect is giving recognition to the underground market economy in the planned economic system. It brings to the open, and legalizes, black-market prices. This is a necessary path which takes us from the planned economy to a commodity economy, but it also brings conflicts and contradictions.

Third, the restructuring of the economic system has destroyed the old economic order and upset the old balancing mechanisms, but it has not established the new control and balance mechanisms. Reform has been an unprecedented undertaking, and we cannot expect everything to be in place right from the start. Some conflicts and contradictions are inevitable.

Four, it is clear from world history that it takes time to set up a new order of commodity economy, and we must go through a whole process.

Thus, we can see that many factors contribute to today's economic chaos. To state succinctly, only by implementing thorough reform can we establish a new order. During the transition from one mode to another, we must take appropriate measures to ensure the timely establishment of a new order of commodity economy.

#### **The Establishment of an Order of Commodity Economy During the Transition Period**

Establishing a new order of commodity economy is a long-term, dynamic process. On the one hand, we must actively implement a complete set of reforms and take positive steps to set up the new order. On the other hand, during the course of reform and development of the commodity economy, conflicts should be resolved as soon as they are discovered, and we must continuously perfect the new order of the commodity economy.

The key to establishing a new order of commodity economy lies in the active implementation of a complete set of reforms and the timely perfection of the new balancing mechanisms. This includes the following aspects:

1. Reform of asset relationships: The objectives of the reform are to basically change the present situation where the property rights of the publicly-owned assets are ill-defined and there is no one to take responsibility, to create independent and competitive owners of property rights, and to eliminate the "soft" budgetary controls. By adopting the contract system, leases, and other systems, we can make enterprises take responsibility for their profits and losses and perfect the self-restraining mechanism and rectify the present short-term behavior of enterprises and facilitate rational enterprise economic behavior to block corruption, embezzlement, bribery, unfair practices, and other unhealthy tendencies which are the results of the lack of clearly defined asset relationships.

2. The implementation of a complete set of price, tax, financial, and wage reforms and the need to smooth out commodity prices and the price of the key factors of production: It is necessary to gradually set up a system which lets the state control the price of a few important commodities produced by privately-run enterprises but allows the market to regulate the price of the majority of other goods as well as the price of labor and services in order to create the proper conditions for the establishment and perfection of the socialist market system and market mechanisms and to create the good social environment for the establishment of the new order of commodity economy. When the dual price system begins to merge, illegal speculation will be driven out of the market, and this will take away the opportunity for people to use their power for private gains or to give and take bribes. The establishment of the labor market will give everybody equal opportunity and a chance at fair

competition. Unhealthy tendencies such as using official power to create unfair competition will be stamped, and the situation of unfair social allocation will be resolved.

3. Implementation of thorough reform in the circulation system and perfection of the market regulations: First, state-run enterprises play a major role in the economy, but they have not separated government from commerce, and they still "eat out of the big pot" of public finance and monopolize the market. To resolve these problems, we must adopt the contract responsibility system, leasing, transfer of property rights, and other methods to convert the state-run enterprises into independent economic entities which can take care of their own profits and losses and which engage in fair market competition. Second, we must introduce new market management formats and amplify the system of market organization, so that merchants and dealers in the non-publicly owned sector can carry out their economic activities within the rules of the market organization, and educate these merchants and dealers to overcome old business habits, and teach them business ethics and trustworthiness. We must take precaution against, and crack down on, illegal economic activities, and gradually set up a unified, orderly, equal, free, and competitive socialist commodity market.

To establish a new order of commodity economy, we have to adopt a legal system. We should promptly define, through laws and regulations, everything that should be encouraged or banned, and use the legal standards to guarantee the normal functioning of the new mechanisms, and manage the economy effectively.

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#### **PROVINCIAL**

##### **Construction Begins on Shanghai Sewage Project**

*OW2508133788 Beijing XINHUA in English  
1120 GMT 25 Aug 88*

[Text] Shanghai, August 25 (XINHUA)—Work began today on China's largest sewage treatment project in Shanghai.

The project calls for laying pipes totalling 66 km to drain off industrial and household sewage and rain water from the city center and the discharging it into the Yangtze River, a project official said.

It is expected to benefit 2.25 Million people in a 70 sq km area in the city center upon its completion in 1992.

Shanghai produces a daily average of five million tons of industrial and household sewage, and three million tons of this is emptied directly into the Suzhou River, a tributary of the Yangtze which snakes through the city.

As a result, the Suzhou River has become foul and black, said the project official.

Experts expect the Suzhou River to become clean again after the project is put to use, the official added.

The project will cost 1.6 billion yuan to build, including 145 million U.S. dollars in World Bank loans.

**Hebei Holds Financial Work Conference**  
*SK2009041788 Shijiazhuang HEBEI RIBAO*  
*in Chinese 3 Sep 88 p 1*

[Excerpts] At the 2 September provincial financial work conference, Provincial Governor Yue Qifeng and Vice Governor Song Shuhua stressed in their speeches that it is necessary to foster new ideas on managing money matters that suit the needs of the situation, maintain a plain living and arduous struggle, and do a better job in increasing revenues and reducing expenditures.

Yue Qifeng said: This year the central authorities implemented a system of "responsibility for progressively increased revenue" toward our province, which provides favorable conditions for rationalizing the relationship between the province and various prefecture and cities in terms of financial distribution. Based on the spirit of storing wealth among the grass-roots and the enterprises, arousing the initiative of every level, and facilitating financial increase, the province implements a multi-formed responsibility method toward various prefectures and cities extensively. It is hoped that all localities will fully develop the superiority of the responsibility system, concentrate efforts on economic development and opening up of financial resources, and further create "a cup of water." Prefectures and cities should also resolutely popularize the multi-formed responsibility system toward countries, based on their specific conditions to invigorate county-level finance. We should actively absorb and use foreign capital. Meanwhile, we should conduct active exploration on new spheres of financial management, and vigorously develop financial credit.

Yue Qifeng stressed: The guiding principles for the financial and tax work during the next few months are to strive for overfulfillment of the revenue target, to carry out the revenue work in a down-to-earth manner, and to properly arrange expenditures. We should resolutely control the social group purchases; change the situation in which some localities "do not have a firm determination and effective measures, nor make checks and implement policies strictly;" and ensure that the prescribed quotas are not exceeded. Strained financial resources will pose a long-standing problem in our province. Leading persons at various levels, and all departments should allow for the difficulties and understand the situation of finance departments, support their work, and help them resolve the difficulties in their work and livelihood. Finance departments should also actively support and coordinate with the reforms and work in other fields, do whatever they can, and give priorities to pressing work.

Song Shuhua said in his speech: to solve financial problems, we should pay attention to the fundamental work, and put more efforts into developing production and improving economic results. First, we should continue to implement and improve the multi-formed contract responsibility system. Second, we should conscientiously attend to enterprise management. Meanwhile, we should cultivate and open up new financial resources in a planned manner. It should be noted that following the gradual implementation of price and wage reforms, financial work has encountered a rigorous test. We should now consider the situations of next year, the year after, and even a farther period, study ways to create and accumulate wealth, and cultivate and open up new financial resources in a planned and organized manner.

Song Shuhua pointed out: With the development of the campaign to increase production, practice economy, increase revenues, and reduce expenditures, our province achieved certain results in reducing expenditures over the past few years. However, the situation of ostentation, lavish spending, waste, and extravagance is still very serious in some localities and units. Therefore, it is necessary for us to conduct provincewide in-depth ideological education on plain living, arduous struggle and building up the country through frugality and hard work. To advocate plain living and arduous struggle, the key lies in reducing nonproductive spendings, and administrative spendings in particular. To reduce administrative spendings, we should conduct the ideological education on pioneering new causes through hard work at present, conscientiously carry out reform of government organs, earnestly straighten out financial systems and the standards for expenditures, and further enforce strict financial and economic discipline. Violation of financial and economic discipline should be sternly handled, and confiscation and punishment should be imposed on those who deserve such. We should resolutely stop the unhealthy trend of waste and extravagance.

**FINANCE, BANKING**

**Savings Deposit Interest Rates To Be Guaranteed**  
*OW0309213288 Beijing XINHUA in English*  
*1428 GMT 3 Sep 88*

[“China To Introduce Guarantees for Savings Deposits”—XINHUA headline]

[Text] Beijing, September 3 (XINHUA)—The People's Bank of China is introducing guarantees from September 10 to keep the interest rate on long-term savings deposits from falling behind price rises.

Three-year, five-year, and eight-year savings deposits of urban banks, rural credit cooperatives and post offices will be protected, according to an announcement issued by the Central Bank today.

There will be no change in the current interest rate but subsidies will be given equal to the rate of price rise. The longer the term of deposit the higher the subsidy.

No subsidy will be given if the deposit is withdrawn before its due date.

## INDUSTRY

### Technological, Economic Index for Jun Released HK0709124588 Beijing CEI Database in English 7 Sep 88

[Text] Beijing (CEI)—Following is a chart of the main technological and economic index of some major enterprises in june, 1988 released by CSICSC (China Statistics Information and Consultancy Service Center).

	Unit	6 /88	6 /87
A. Coal industry			
1. Ash ratio of commodity coal	percent	19.02	19.14
2. Waste rock ratio of commodity coal	percent	0.17	0.18
3. Mine timber used in coal mining	cubic meters/ ten thousand ton	46.74	50.80
4. Total power consumption	kwh/ton	37.03	36.14
B. Oil industry			
1. Proportion of oil wasted	percent	1.59	1.54
2. Power consumption in production	kwh/ton	71.40	64.30
C. Power industry			
1. Proportion of qualified power cycle	percent	94.24	99.21
2. Standard coal consumption in generating	gram-kwh	400.00	453.00
3. Proportion of dissipation in wires	percent	6.94	6.12
D. Metallurgical industry			
1. Proportion of qualified pig iron	percent	99.98	99.97
2. Proportion of qualified rolled steel	percent	98.66	98.83
3. Iron ore consumption in production of pig iron	kg./ton	1779.00	1786.00
4. Comprehensive coke ratio	kg./ton	556.00	554.00
E. Engineering industry			
1. Off-iron ratio	percent	7.14	7.35
2. Power consumption in electric steelmaking	kwh/ton	723.20	749.70
3. Coke consumption in cupola furnace and metal furnace	kg./ton	127.30	121.80
F. Chemical industry			
1. Volume of acetylene derived from calcium carbide	litre/kg.	295.30	295.40
G. Building materials industry			
1. Proportion of first-rate plate glass	percent	64.83	70.51
2. Comprehensive power consumption of cement	kwh/ton	103.30	103.20
3. Power consumption of plate glass	kwh/cases	5.26	5.18
H. Textile industry			
1. Proportion of first-rate yarn	percent	99.17	98.95
2. Proportion of first-rate cloth in storage	percent	76.45	96.28
I. Railway			
1. Coal consumption of steam locomotives	kg./10 thousand ton km	107.20	101.70
2. Diesel oil consumption of diesel locomotive	kg./10 thousand ton/km	25.20	25.40
J. Diesel oil consumption of inland river vessels	kg./thousand ton km	6.49	6.18

**Statistics Bureau Publishes August Regional Figures**

OW0809083588 Beijing XINHUA in English  
0541 GMT 8 Sep 88

[Text] Beijing, September 8 (XINHUA)—Following are the regional industrial production figures in August released by the State Statistics bureau here today:

Region	Output Value (100 million yuan)	Rise Percentage Over August 1987
National Total	1004.69	18.3
Beijing	35.51	17.4
Tianjin	29.82	10.2
Hebei	38.17	18.3
Shanxi	21.06	12.3
Inner Mongolia	10.72	14.5
Liaoning	73.27	9.7
Jilin	24.75	11.9
Heilongjiang	35.94	10.3
Shanghai	84.92	14.3
Jiangsu	116.01	18.6
Zhejiang	61.51	23.8
Anhui	27.59	21.9
Fujian	20.33	31.7
Jiangxi	18.30	11.7
Shandong	70.89	28.1
Henan	36.95	19.0
Hubei	51.61	18.5
Hunan	30.06	7.1
Guangdong	76.69	36.1
Guangxi	15.39	21.8
Hainan	1.78	42.4
Sichuan	53.01	14.1
Guizhou	9.65	17.0
Yunnan	13.20	13.6
Tibet	0.11	22.2
Shaanxi	20.21	18.0
Gansu	13.06	25.6
Qinghai	2.79	26.8
Ningxia	2.81	22.7
Xinjiang	8.58	15.3

**Industrial Output Values for August**  
HK0909093588 Beijing CEI Database  
in English 9 Sep 88

[Text] Beijing (CEI)—Following is a list of industrial output values by areas in August 1988, according to statistics of the State Statistical Bureau.

areas	1-8/88	8/88	Increase over 1-8/1987
(in 100 million yuan)			
Total	7751.11	1004.69	17.1
Beijing	271.04	35.51	15.1

areas	1-8/88	8/88	Increase over 1-8/1987
(in 100 million yuan)			
Tianjin	234.02	29.82	10.0
Hebei	235.00	38.17	17.0
Shanxi	162.63	21.06	10.5
Inner Mongolia	80.67	10.72	12.4
Liaoning	563.81	73.27	11.7
Jilin	201.08	24.75	15.9
Heilongjiang	293.58	35.94	9.3
Shanghai	643.014	84.92	5.8
Jiangsu	923.72	116.01	21.8
Zhejiang	400.18	61.01	18.3
Anhui	207.77	27.59	17.2
Fujian	152.68	20.33	30.2
Jiangxi	144.50	18.30	18.1
Shandong	564.43	70.89	27.2
Henan	283.18	36.95	18.9
Hubei	396.32	51.61	16.8
Hunan	244.77	30.06	12.6
Guangdong	551.13	76.69	32.6
Guangxi	114.71	15.39	14.5
Hainan	12.96	1.78	10.3
Sichuan	404.87	53.01	18.0
Guizhou	69.75	9.65	14.2
Yunnan	105.83	13.20	14.7
Tibet	1.01	0.11	29.5
Shaanxi	150.21	20.21	13.7
Gansu	98.31	13.06	14.7
Qinghai	19.05	2.79	20.8
Ningxia	21.22	2.81	18.9
Xinjiang	64.56	8.58	17.0

**SMALL-SCALE ENTERPRISES**

**He Kang Speaks on Reform of Rural Enterprises**  
OW1409152288 Beijing XINHUA Domestic Service  
in Chinese 1648 GMT 13 Sep 88

[Excerpts] Beijing, 13 Sep (XINHUA)—Rural enterprises must recognize their advantages as well as the advantages of state-run enterprises, deepen the ongoing reform, and contribute to maintaining the sustained growth of the national economy, said He Kang, minister of agriculture, here today.

He Kang made these remarks when addressing a national forum of some noted peasant entrepreneurs. He said: In the past few years rural enterprises have grown rapidly. They have played an important role in boosting national economic development, in propelling all-round production in the rural areas, and in providing the means of developing agriculture with industry. A good village and town enterprise mechanism has taken shape as a result.

What are the good aspects of this village and town enterprise mechanism? He Kang held that as far as operational goals are concerned, rural enterprises feel the

pressure and urgency of having to transform poverty and realize that there is only advance, and no going back; rural enterprises follow a fairly enlightened policy, have more decision-making power, and have truly adopted the system of the plant manager assuming full responsibility; in their business operations rural enterprises have truly assumed full responsibility for their own losses and profits, adopted the system of independent accounting, and eliminated egalitarianism; in wage distribution rural enterprises have adopted a system in which those who work more are paid more, and efficiency is linked to wages, and have eliminated the system in which workers are guaranteed permanent jobs; in hiring employees rural enterprises have introduced equal competition by selecting qualified personnel from all areas and have adopted the system in which the competent are promoted and the incompetent are demoted, thus eliminating the system of providing permanent jobs; in production rural enterprises have used market forecasts as guidance and manufactured products in response to market demands; in development rural enterprises have worked hard to expand themselves by relying on accumulated funds, and because they always have to think of possible pitfalls even in times of peace, their days have not been easy.

He Kang said: We must carry forward this good village and town enterprise mechanism. On the other hand, village and town enterprises must not act arrogantly because of their advantages; they should recognize their shortcomings. State-run enterprises also have many strong points because of their technological advantages, qualified personnel, and modern managerial expertise. Village and town enterprises must learn from the strong points of state-run enterprises in order to constantly improve themselves. Rural and state-run enterprises must strive for advancement through competition, and industry and agriculture must assist one another in order to develop the commodity economy.

He Kang pointed out: To advance soundly, village and town enterprises must maintain the spirit of working hard and a flexible operational mechanism. At the same time, we must anticipate the problems that would arise if we develop these enterprises aimlessly. Therefore, to avoid such problems, we must do careful planning and see to it that rural enterprises are rationally distributed. In the course of deepening enterprise reform, we must clearly define the decision-making power and ownership of enterprises, separate the functions of government administration and enterprise management, and establish the legal status of enterprise managers. We must strive to improve the contract responsibility system, introduce the shareholder system, and reform the distribution system. With the development of enterprises, associations among rural enterprises and between state-run enterprises and rural enterprises should be promoted, and mergers and auctions should be encouraged. It is necessary to strengthen technology development and improve product quality to meet market demands. It is

necessary to improve the quality of enterprises by hiring and training competent personnel, and to improve enterprise management and the quality of services.

He Kang also said: Village and town enterprises must pay attention to safety in production, reduce environmental pollution, and develop and utilize resources rationally.

He Kang said: Village and town enterprises must be developed in line with China's reality. As China is in the process of solving major problems in reform, village and town enterprises, as an indispensable force in developing China's commodity economy, must contribute to maintaining the sustained growth of the national economy.

The national forum of some noted rural entrepreneurs, organized by the Ministry of Agriculture, lasted 3 days. Yang Yinhuan, manager of the Tongxian Automobile Heating Equipment Plant in Beijing, and Zhang Hongbin, manager of the Huiqiao Hotel in Beijing, attended the forum. They expressed their views on how to develop rural enterprises and on how to deepen reform.

#### Private Business Sector Growing Rapidly

*HK1409143388 Beijing CEI Database  
in English 14 Sep 88*

[Text] Beijing (CEI)—Retail sales of China's private commerce and catering industry totalled 95.8 billion yuan, 20.7 percent of the total sales volume of the country last year, according to announced statistics.

Private commercial establishments and catering industry and services now number 10.15 million, 56 times higher than in 1978 with about 14.7 million self-employed people, up 55 times.

#### COMMERCE

#### Corporation Fined for Trademark Infringement

*OW1009191988 Beijing XINHUA in English 1504 GMT 10 Sep 88*

[Text] Nanning, September 10 (XINHUA)—A corporation in Nanning, capital of south China's Guangxi Zhuang autonomous Region, has been fined 58,749.3 yuan for trade mark infringement, XINHUA learned today.

Guigang Enterprises LTD misused the patented trade mark of a pharmaceutical factory attached to the Guangxi College of Traditional Chinese Medicine, according to the Supreme People's Court of the Region ruling on an appeal.

**Shanxi Governor Visits Jiangsu, Discusses Cooperation**

*OW1109152188 Nanjing Jiangsu Provincial Service in Mandarin 2300 GMT 10 Sep 88*

[Text] An economic delegation from Shanxi led by Governor Wang Senhao visited Jiangsu's Nanjing, Suzhou, Wuxi, and Changzhou cities 4-8 September. The delegation discussed with the hosts economic and technological cooperation and reached agreement with them on 26 projects.

In the spirit of mutual support, equality, mutual benefit, and joint development, the two sides agreed that Jiangsu will actively help Shanxi develop its raw materials, technology, and processing industry for export and that the two provinces will jointly develop their mineral and agricultural resources and coal industry. The two sides also agreed that Shanxi and Wuxi will jointly set up a Jinxi Joint Coal Transshipment Corporation to increase coal shipment and reduce transportation cost.

**FOREIGN TRADE, INVESTMENT**

**National Work Meeting Reports Use of Foreign Government Loans**

*OW0709025688 Beijing XINHUA Domestic Service in Chinese 0700 GMT 5 Sep 88*

[By correspondent Chen Guangming]

[Text] Shenyang, 5 Sep (XINHUA)—According to information released by the first national work meeting on the use of foreign government loans, which was held in Dandong recently, foreign government loans actually used by China from 1979 to 1987 totalled approximately \$5 billion. Those loans were mainly used in building key state projects, including communications, transport, and energy projects.

It is reported that 12 communications and transport projects were built with the borrowed funds. They included constructing Shijiuso Harbor in Shandong and the Qianwan Harbor District of Qingdao Harbor; expanding Qinhuangdao Harbor; constructing the Yanzhou - Shijiazhuang Railroad; and double-tracking and electrifying the Beijing - Qinhuangdao, Hengyang - Guangzhou, and Zhengzhou - Baoji Railroads, totalling 1,800 kilometers in length. The projects increased the annual railroad cargo transport capacity by more than 100 million metric tons. Foreign government loans also supported the development of China's raw and processed materials industry and agriculture.

**Customs Administration Raises Duty on Imported Appliances**

*OW1509002388 Beijing XINHUA in English 1512 GMT 14 Sep 88*

[Text] Shenzhen, September 14 (XINHUA)—Individuals importing consumer appliances into China will have to pay double the customs duty from tomorrow.

Under a regulation passed today by the General Administration of Customs with the approval of the State Council, the tax on imported consumer appliances by individuals—including refrigerators, washing machines, audio apparatus and radio-cassette recorders—will be raised tomorrow from 50 percent to 100 percent.

**New Firm To Handle Foreign Legal Matters**

*OW0109093888 Beijing XINHUA in English 0819 GMT 1 Sep 88*

[Text] Beijing, September 1 (XINHUA)—A new law office focusing on foreign-related economic, trade and civil legal matters opened here today.

The Tianping Law Office, established with the approval of the Ministry of Justice, is aimed at offering legal services to corporations, enterprises, institutions, government offices, social bodies and citizens inside and outside China, and safeguarding the legitimate rights of Chinese and foreign clients.

The firm will offer consultation on international trade, financing, foreign exchange, exploitation of resources, intellectual property, technology transfer, international transportation, taxation and insurance, said Director Xu Hegao at the opening ceremony.

The company will also handle legal matters concerning Sino-foreign joint ventures, Sino-foreign contractual cooperative enterprises and wholly foreign-owned enterprises, the director said. It will also act as attorney in litigation and arbitration.

According to him, the firm will take part in conciliation and mediation in economic disputes and handle foreign notarial procedural matters on behalf of clients.

The company is willing to establish and develop regular ties and cooperation with other law offices both at home and abroad, the director added.

**Mines Stepping Up Export Plans**

*HK1209010088 Beijing CHINA DAILY in English 12 Sep 88 p 2*

[By staff reporter Qi Hongmin]

[Text] In response to growing interest from the outside world, China is seeking to improve its mining and processing technology and cooperation with advanced countries in these fields.

Wang Zhengqian, business manager of the export department of the China National Nonmetallic Minerals Industry Corporation (CNMC) said more than 200 production lines had been imported from abroad and a number of joint ventures had been set up which had proved efficient and profitable.

Before 1985, the total annual output value of stone products was just \$4 million. By 1987 it had jumped to \$20 million and it is expected to rise again this year.

To further extend international cooperation, the Ministry of Foreign Economic Relations and Trade (Mofert) recently gave the CNMC, the first nationwide production-trade combining industrial group, permission to undertake import and export business independently.

Wang said the corporation could now expand its business scope to import all kinds of nonmetallic minerals, products and techniques, and to export tools, inspection and surveying equipment, production lines, spare parts and raw materials for producing nonmetallic mineral products and techniques.

Meanwhile, he said, the CNMC planned to further export its products to the international market by setting up nonmetallic mineral and product enterprises with foreign firms in the form of joint ventures, coproduction, compensation trade and processing with supplied materials.

He said the cooperation projects would make use of bentonite, attapulgite, sepiolite, talc, amorphous graphite, flake graphite, diatomite, diabase and processing products of marble powder, marble arts, and granite.

China's rich potential resources provide favourable conditions for the development of its nonmetallic mineral industry, Wang said. For instance, there are more than 400 varieties of marble and granite in China and the diatomite deposit is one of the largest in the world.

But for various reasons, China's stone products industry still remains backward despite its rapid development over the past few years. Wang said poor economic results in management and production, underdevelopment of mining and processing technology and the inadequate transportation situation should be blamed for the low volume of exports.

#### **Beijing Steelworks Eyes World Market, 'International Prestige'**

OW2209063488 Beijing XINHUA in English  
1604 GMT 21 Sep 88

[Text] Beijing, September 21 (XINHUA)—The development strategy of Beijing's Capital Iron and Steel Company is to turn itself into a business syndicate of international prestige.

As its first step to achieve the goal, the company, one of China's leading iron and steel producers, is preparing to get a foothold in overseas markets, according to Zhang Xianqing, general manager of a newly-formed machinery engineering company attached to the iron and steel complex.

So far, it has established 17 self-funded and joint-venture sales undertakings in the United States, Canada, Italy, Switzerland, France, Belgium, Singapore, and Australia. These are designed to promote sales, business ties, collection of economic and technical information and training of people in foreign trade and economic activities.

The machinery engineering company was formed in early May this year to tap the international market for its master company and to help the latter compete in construction of iron and steel, and machine-building projects overseas.

The Capital Iron and Steel Company, initiated in 1919, is actually a large enterprise group which, having a total workforce of 220,000, is connected with 14 industries such as electronics, machine-building, construction, light industry, textiles, chemicals, nonferrous metals, shipbuilding, and tourism. It has 74 subordinate enterprises in 22 provinces and municipalities.

An important step it has taken was to buy the majority of the shares of a U.S. Engineering company, Mesta, in July this year. Mesta is involved in design and production of rolling mills, conticasters, and their supporting equipment.

The iron and steel complex is to combine Mesta's technology and its own processing capability to manufacture large conticasting and steel rolling equipment for both domestic and overseas clients, said Zhang.

Since the contract responsibility system was introduced into the enterprise, the complex has achieved rapid development. Statistics show that its fixed assets have reached 5 billion yuan in value. In 1987, it generated 1,345 million yuan in profit, 4.5 times more than in 1978, the year when China adopted the policy of reform and opening to the outside world.

During the country's Sixth 5-Year Plan (1981-1985), the complex allocated 315 million yuan to transform and upgrade 58 larger projects. Based on this, it has opened or taken over 45 enterprises since 1983. All these steps have helped the company turn itself into a large enterprise group.

In addition, it has spent 200 million U.S. Dollars to import technologies and equipment for steel rolling and smelting, and continuous casting from the United States, France, and Belgium. Meanwhile, it has exported pre-burning hot-air furnace and coal-dust spraying technology to Britain and Luxembourg.

General Manager Zhang said, "It is an inevitable trend for China's larger enterprises to go to the world market for their economic development."

He said the development strategy of the Capital Iron and Steel Company is to turn itself into a business syndicate of international scope.

According to statistics issued by the municipal foreign economic relations and trade commission, Beijing's enterprises have so far opened 35 businesses overseas.

**Export Volume in Beijing Sets Record**

*SK2209055388 Beijing City Service  
in Mandarin 1000 GMT 8 Sep 88*

[Summary] Beijing has soundly developed its foreign trade structural reform. As of 31 August, the municipality as a whole exported \$716 million worth of products, fulfilling 91.8 percent of the annual state-assigned export plan, an all-time record.

**Guangdong Regulations Stimulate Investment**  
*OW1009023988 Beijing XINHUA in English  
0146 GMT 10 Sep 88*

[Text] Beijing, September 10 (XINHUA)—South China's Guangdong Province has promulgated new regulations to speed up foreign investment and export markets, today's overseas edition of PEOPLE'S DAILY reported.

Under the new regulations persons who introduce overseas investment to Guangdong will receive a reward from the Government.

Another allows overseas investors to hire their mainland relatives and grants the right to share income to those who facilitate local export production by supplying technology or sales network.

Local governments are given more power to approve foreign-funded projects, private enterprises can undertake processing business for foreign customers and foreign-invested enterprises are granted more liberty in import and export.

Cities under the provincial government can set up foreign exchange centers where individuals are allowed to sell foreign currency at the market price.

The province will selectively allow foreign banks to establish branches in Guangzhou and other coastal cities and encourage them to cooperate with their Chinese counterparts to develop financial markets.

The package of 17 regulations also include bidding on export quota, establishment of risk foundations for export and financial support for enterprises concentrating on export production.

**Foreign Investment Up in Guangzhou**  
*OW0109183488 Beijing XINHUA in English  
1512 GMT 1 Sep 88*

[Text] Guangzhou, September 1 (XINHUA)—Foreign investment in Guangzhou during the first seven months this year was up 1.7 times over the same period last year.

Foreign-funded firms signed 156 investment contracts with the city. The contracts were worth 140 million U.S. dollars.

Thirty projects each with an investment of more than five million U.S. dollars are under negotiation, the city's Department of Foreign Economic Relations and Trade says.

The investors have come from Hong Kong and Macao, Japan, Taiwan, South Korea, as well as several European and American countries.

This year production projects have taken the lion's share of investments—97.5 percent. Last year they took 78 percent.

The city signed nearly 900 foreign investment contracts between 1978 and 1987. They have been worth 1.7 billion U.S. dollars, of which 560 million U.S. dollars has been used.

The city's 400 operational foreign invested enterprises have exported 40 million U.S. dollars worth of goods in the first seven months this year, one-tenth of the city's total export volume.

**Hong Kong, Macao Investment Firm To Build Plant in Hainan**

*OW0909000588 Beijing XINHUA in English  
1441 GMT 8 Sep 88*

[Text] Haikou, September 8 (XINHUA)—The Hong Kong and Macao International Investment Company, one of the largest investors in Hainan Province, held a ceremony here today to mark the commencement of its eight investment projects in the island province.

The company is investing 150 million U.S. dollars in these projects.

One 82 million U.S. Dollar project, the Macun power plant in the provincial capital of Haikou, will go into operation in March 1990.

The plant is being built by two companies from Shanghai.

Attending today's ceremony were secretary of the Hainan Provincial Committee of the Chinese Communist Party Xu Shijie, Hainan Provincial Governor Liang Xiang, and director of the Hong Kong office of the XINHUA news agency Xu Jiatun.

**Foreign Firms Invest in Hainan Province**  
*HK0809095388 Beijing CEI Database  
in English 8 Sep 88*

[Text] Haikou (CEI)—Hainan Province approved 161 foreign-funded enterprises with a total contracted investment of 300 million yuan and 226 million U.S. dollars in foreign exchange from September last year to the end of July this year.

About 62 percent of these foreign-funded enterprises are engaged in industry, 22.6 percent in the management of real estate, public services, residential services and consulting services, 2.3 percent in agriculture, forestry and animal husbandry, 5.5 percent in construction, 3.1 percent in transport and 1.6 percent in commerce.

However, this development is not completely in line with the province's strategy for economic development, since Hainan is badly in need of investment in infrastructural construction, agriculture, science and technology and tourism.

**Nanjing Simplifies Investment Procedures**  
*HK0509121788 Beijing CEI Database  
in English 5 Sep 88*

[Text] Nanjing (CEI)—The Nanjing Municipal Government has worked out a series of stipulations to simplify procedures for the approval of foreign investment.

Under the stipulations, district and county governments authorized by the municipal government can approve productive projects with an investment up to five million U.S. dollars.

The municipal government has set up a special office to go through all procedures from registration to signing of contracts for projects with an investment of over five million and less than 30 million U.S. dollars.

Enterprises with the authority to export and import can conduct trade talks and sign contracts with foreign firms on processing business with customer-supplied materials, samples and parts.

Enterprises not authorized to export or import can also hold talks and sign contracts jointly with foreign trade companies at the municipal and county levels with foreign firms.

In the first half of the year, the city approved eight foreign-funded enterprises with a total investment of 384 million U.S. dollars, which was the highest in Jiangsu province.

**Inner Mongolia Trade 'Gratifying'**  
*SK1609113788 Hohhot Inner Mongolia Regional Service in Mandarin 2300 GMT 13 Sep 88*

[Text] This year the Inner Mongolia Autonomous Region has witnessed a gratifying situation in foreign trade and exports. By the end of August, the total value of foreign trade amounted to \$194.96 million, a 34.85-percent increase over the corresponding period of last year, overfulfilling the annual export target 4 months ahead of schedule.

**Shanghai Foreign Investment Shows Increase**  
*HK0609125388 Beijing CEI Database  
in English 6 Sep 88*

[Text] Shanghai (CEI)—Shanghai has introduced more than two billion U.S. dollars of foreign investment from 19 countries and regions.

According to statistics from the Committee of Foreign Economic Relations and Trade of Shanghai, the number of foreign-funded projects in the first eight months of 1988 is 13 percent more than that of last year with the investment close to the amount of last year.

By the end of August, Shanghai had absorbed 2 billion U.S. dollars of foreign investment, approved 390 Sino-foreign joint ventures, cooperative enterprises and foreign-funded enterprises including 295 joint ventures, 92 cooperative enterprises and three exclusively foreign-funded enterprises.

During the first eight months, Shanghai had 99 new foreign-invested enterprises with 242.54 million dollars of investment as against the 76 enterprises involving 246.35 million U.S. dollars of investment last year.

The investment in industrial projects accounted for a large proportion of the total overseas investment in the first eight months of this year. It reached 125.57 million dollars, accounting for 51.77 percent of the total.

Meanwhile, investment in the suburbs of Shanghai also went up. Foreign businessmen began establishing companies with rural enterprises through co-investment or cooperation. They invested in 27 joint ventures and cooperative enterprises in August alone of which 16 were township-run enterprises in the suburbs.

Economists here said that, with the improvement of investment climate in Shanghai, the city will be more attractive to foreigners. It was expected that the investment from Taiwan will take up a large proportion in the near future.

**Investment Ventures Increase in Tianjin**  
*OW0809120388 Beijing XINHUA in English*  
*0744 GMT 8 Sep 88*

[Text] Beijing, September 8 (XINHUA)—Twenty-nine new foreign investment ventures were approved in Tianjin in the first half of the year.

They involved a contractual foreign capital of 30 million U.S. dollars, nearly triple the amount of the first six months in 1987.

They brought the total number of foreign ventures approved in the north China city to 164.

The 29 new ventures include one wholly foreign-owned venture, four contractual joint ventures and 24 equity joint ventures.

All but three are in manufacturing and involve a total capital input of 65 million U.S. dollars.

Five of the ventures have each committed themselves to capital expenditures of more than five million U.S. dollars. Eight firms are producing products exclusively for export markets.

## ECONOMIC ZONES

**Textile Ministry Experts Predict Preferential Terms for Hainan**  
*HK0209062288 Beijing CHINA DAILY*  
*in English 2 Sep 88 p 2*

[By staff reporters Song Ning and Jiang Xiaoyun]

[Text] The textile industry is to lay firm foundations for its future development on Hainan Island—the country's largest economic zone.

The coastal cities of Haikou, Qionghai and Sanya are set to become textile centers in the newly established province.

An official of the Ministry of the Textile Industry told CHINA DAILY that the central government may provide the province with money to establish a "solid foundation" there.

He said the provincial government will seek investment both at home and abroad.

Textile processing and production of ready-for-sale goods—as opposed to semi-finished products—will play a major role in Hainan's textile industry.

With the preferential terms granted to the new province by central government, Hainan looks set to become one of China's most important production centers for textile exports.

Sources who refused to be named said the ministry is ready to reveal a detailed plan for the development of the industry.

They said four experts from the Ministry of Textile Industry had already urged Hainan Province to attract foreign investment for the construction of major projects on the island and to encourage the production of goods for export.

They suggested the development of a group of key mills which would handle both finished products and raw materials.

"The textile industry has been a pillar industry in China's four special economic zones (Shenzhen, Zhuhai, Xiamen and Shantou). None of these zones had a foundation for the industry, however, when they first opened their doors to the outside world," the experts' report said.

"They have experience in cooperating with both Chinese and foreign counterparts and are actively involved on the world market."

Hainan has more advantages than the other special economic zones: greater autonomy, lower labor costs and taxes and the current plans to boost the island's existing textile mills.

Hainan now has 23 textile mills with total fixed assets of 360 million yuan and a combined production value of 304 million yuan.

The development of the offshore oil industry in the South China Sea will provide abundant raw materials for the island.

The experts also proposed the setting up of giant chemical fibre projects in Hainan.

According to the ministry, the island has received many foreign businessmen who wish to invest in its textile industry.

Other reports say China's electronics industry is also likely to play a leading role in the economic zone.

**Liang Xiang Announces 'Equal Opportunity,' Greater Autonomy for All Enterprises**

**Economic Competition To Be Promoted**  
*OW0709061388 Beijing XINHUA Domestic Service*  
*in Chinese 1101 GMT 5 Sep 88*

[By reporter Chen Jiang]

[Text] Haikou, 5 Sep (XINHUA)—Hainan Province, which develops a market economy under the overall guidance of the state, will offer an equal opportunity to

all enterprises in the province, including state-run, collective, and individual enterprises, as well as those run exclusively with foreign investment, Sino-foreign joint ventures and cooperative enterprises, newly-elected Governor of Hainan Province Liang Xiang told XINHUA not long ago.

The aim is to stimulate economic activities and promote competition on an equal basis.

Liang Xiang said: The Hainan Special Economic Zone relies on market regulation to develop its economy and set up a diversified ownership system. Therefore, to provide an environment of equal competition is a requirement in vigorously developing the various economic sectors and in promoting, and improving, the market economy. Due to various reasons, the principle of equal competition was not fully implemented by enterprises in carrying out business management in the past. This has affected the enthusiasm of the enterprises in carrying out production and doing business. Some of them, having been given preferential treatment, often conceal problems caused by mismanagement. Since there is no competition on an equal basis, some evildoers have been given the opportunity to abuse their authority to seek their own interests, break laws, and violate discipline.

Liang Xiang announced the specific policies and measures adopted, and being adopted, by the Hainan provincial government for fair competition.

These measures are as follows:

- All registered enterprises in Hainan, either large or small, are treated equally. All enterprises can engage in industrial and commercial activities, tourism, and the service trade, in addition to their own line of business. Foreign businessmen are allowed to handle import and export transactions and do retail or wholesale business.
- All registered enterprises in Hainan enjoy the privilege of importing and exporting merchandise, breaking down the monopoly in doing business by specialized companies.
- An open tender and competitive bidding system will be implemented in importing highly profitable merchandise of limited quantity, obtaining licenses for exporting merchandise on a quota basis, and facilitating land transfer and land development with compensation.
- All enterprises will pay income tax at a unified tax rate.
- In the field of banking, various specialized banks will be permitted to render the same type of services, and to buy and sell foreign exchange. Banks with foreign capital are allowed to handle transactions in renminbi.

**'Government Interference' To Be Minimized**  
*OW0509161288 Beijing XINHUA in English*  
*1146 GMT 5 Sep 88*

[Text] Haikou, September 5 (XINHUA)—The Government of Hainan Province will offer an equal opportunity to local enterprises with different ownerships in the market economy, newly-elected Governor Liang Xiang says.

The aim is to stimulate development and promote competition, he said.

Enterprises in Hainan will enjoy greater autonomy in management than those in other parts of the country, he added.

All registered enterprises can engage in industrial and commercial activities, tourism and the service trade in addition to their own lines of business.

They can also handle import and export transactions with foreign firms, set their own production quotas and operate their affairs with a minimum of government interference.

**Hainan Legislature on Land Use, Investments**  
*OW0909000388 Beijing XINHUA in English*  
*1439 GMT 8 Sep 88*

[Text] Haikou, September 8 (XINHUA)—The legislature in Hainan, China's newest province and largest special economic zone, is busy making decrees on land-use, investment and enterprises, a vice-governor said here today.

Answering questions from Hong Kong and Macao reporters, Xin Yejiang, in Charge of legislation and jurisdiction, said that the provincial government has already set up a department specially to work on decrees.

"Some important decrees are expected to be promulgated within a year or two," he said. The decrees include those on land-use, investment and enterprises.

The legislative body will consult with local and Hong Kong jurists, and absorb opinions from experts in other coastal areas and central government organs, he said. Then a period of experimentation will be followed by proper legislation.

**Shandong's Qingdao Boosts TV, Refrigerator Exports**  
*OW0409203688 Beijing XINHUA in English*  
*1143 GMT 4 Sep 88*

[Text] Qingdao, September 4 (XINHUA)—Qingdao in east China's Shandong Province has boosted its export of televisions and refrigerators this year, a senior provincial trade official said today.

Television exports have doubled over last year and earned the city 10 million U.S. Dollars in foreign exchange to the end of July, he said.

He noted half of the city's production of refrigerators is now exported. Foreign exchange earnings last year totalled 12.8 Million U.S. Dollars.

The TV factory is introducing new technology worth two million U.S. Dollars to improve product quality, he said.

#### **Shenzhen Authorities Examine Foreign Contracts, Realize Savings**

*OW0309213088 Beijing XINHUA in English  
1432 GMT 3 Sep 88*

[Text] Shenzhen, September 3 (XINHUA)—The authorities of Shenzhen, China's first special economic zone, have saved 826,100 U.S. dollars in possible economic loss while examining economic contracts the city has signed with foreign enterprises.

Among the 48,700 contracts the zone has checked since last September, some were signed without careful feasibility studies on the part of the Chinese party, according to the city's supervision bureau, which conducted the reassessment along with seven other local government departments.

"As a result of faulty contracts, some enterprises are operating in the red," the bureau said.

Some managers abuse their powers for their own gain by letting their foreign counterparts earn the lion's share, it said.

The bureau has drawn a clear distinction between those who have signed unprofitable contracts because of inexperience or ambiguous policies and those who have taken bribes or engaged in other illegal activities.

"The two kinds of cases are treated differently," the bureau said.

Shenzhen has adopted a provisional regulation in this regard.

#### **Economic Developments in Shenzhen Jan-Jun 40060499 Shenzhen SHENZHEN TEQU BAO in Chinese 19 Jul 88 p 1**

[Article by Lin Qing 2651 7230: "Unprecedented Economic Prosperity Calls For Clearheaded Thinking: A Commentary On Shenzhen's Economic Situation During the First 6 Months of the Year"]

[Text] In this year of the dragon, crowds of merchants have gathered in Shenzhen, all means of transportation are busy, hotels are filled to capacity, business orders

surge, the buying and selling markets are equally busy, real estate transaction is active, and everywhere, the economy is extraordinarily prosperous and active.

At the end of last year, and even early this year, people were worried that the international economic turbulence caused by the worldwide stock market crash and the intense competition generated by the thorough reforms and opening up in the mainland would affect Shenzhen's economic development. Today, all worries have long dissipated.

Analysts here are citing the city government's recently disclosed statistics to prove that Shenzhen indeed has the ability to hold their own against formidable challenges. Shenzhen's export-oriented economy has entered a phase of smooth development.

Comparing the first 6 months of this year with the same period last year:

Shenzhen's GVIO was 3.567 billion yuan, an increase of 45.7 percent, and the trend has been steady and rising every month. The total output value in June was 770 million yuan, a record for any one month period. Total export value increased 84.1 percent, topping \$810 million, and foreign exchange income increased 80.2 percent. The total value of social commodities increased 47.8 percent, totalling 2.25 billion yuan; investments in the completion of basic construction have reached 1.14 billion yuan, an increase of 50.4 percent; the volume handled at coastal ports increased 48 percent, and post and telecommunications volume increased 56 percent. The banks' credit shortfall has shrunk, and enterprise performance has improved; loan repayment pose little problem, and there is an ample supply of funds. Budgeted government revenues increased 40.5 percent.

Higher output value, profit, and government revenues have kept pace with one another. This is rare in the history of the SEZ.

Up to the end of last year, Shenzhen has invested 10.3 billion yuan in economic constructions to generate a productive capacity of between 7 and 8 billion yuan a year. Last year alone, 150 factories have gone into production, adding another 1 billion yuan in productive capacity. After making adjustments in policy controls and economic levers, both the industrial structure and the product-mix have improved. Shenzhen's economic strength has been boosted, especially by the completion and going into operation of a group of rather large projects, for example, the Shajiao "B" Power Plant, the Guangdong Fufa Glass Factory, the Guangdong Cigarette Factory, and the Shenri Printing Ink Factory, all of which are financed by foreign funds.

Meanwhile, the construction of a complete set of infrastructures, particularly in drainage, power supply, communications, transportation, and port facilities, are progressing smoothly. The Wutongshan tunnel, the Wenjin

Ferry Crossing parking lot, the upgrading of the Donghu Waterworks, the 220,000 volt transformer project and several other major projects have been completed and are in operation, and these have improved the investment climate, making Shenzhen even more attractive to outsiders.

On the other hand, the implementation of thorough reform of the management and administrative systems, the perfection of the contract management responsibility system, and the promotion of the manager's tenurial goal responsibility system have increased enterprise vitality and raised management standards, and the more mature enterprise management programs are more adaptable to changes in the market economy; most enterprises had made production arrangements for this year at the end of last year.

With this solid foundation, faced with changed domestic and foreign economic conditions, Shenzhen is able to promptly seize the opportunity and beat the competitors.

Many enterprises in Shenzhen can adjust the product-mix to meet the needs of the international market. As a result, when orders shift to enterprises producing practical and low-cost products, many of Shenzhen's enterprises are able to adjust to the situation. Most enterprises have received many orders, and some are so overloaded that they have to increase investment in order to expand production. Still demand far exceeds supply.

As the international industry structure changes, Shenzhen's fairly perfect investment climate provides a place for the well-developed countries and regions to transfer their labor-intensive or semi-labor-intensive industries to. During the first 6 months, the "three forms of import processing, and compensatory trade" have surged. Joint ventures, contractual joint ventures, wholly foreign-owned enterprises and other contractual agreements to use foreign funds have increased 1.32 fold over the same period last year, and long-term or large-scale projects such as industries, transportation, and technologies have become focal points of foreign investments.

As the country pursues the coastal economic development strategy, Shenzhen seized the opportunity and gave full play to its advantage as the "window" to the mainland and quickly developed lateral economic ties with the mainland. The industrial structure has also been optimized. Compared with the same period last year, Shenzhen's industrial projects and their negotiated investments have increased 3.6 fold and 8.4 fold respectively, and this has reversed the tradition where trade and industrial-commercial type projects have always had an overwhelming advantage.

Local economic authorities have forecasted that, barring any drastic change in the domestic and foreign economic situations, in the next 6 months, or even in the next 3 years, Shenzhen's industrial economy will continue to achieve significant growth.

There is much evidence to support this kind of forecast. Last year, we went through a peak repayment period to pay off the huge loans obtained several years ago. Today, this peak period is behind us, and enterprise production has good prospects and strong potential. Increasing the momentum, however, is an issue not to be overlooked. We cannot rely entirely on the "three forms of import processing, and compensatory trade" to turn Shenzhen into a SEZ of a higher level. Few large-scale mainstay enterprises have been built in recent years. Many foreign investment consortiums and transnational companies have only begun to notice Shenzhen. Many projects have stalled at the negotiating table. These areas require much greater efforts. Furthermore, Shenzhen is trying hard to solve the two-prong problem of raw and processed material shortage and inflation. The idea of opening the market for capital goods to foreign merchants is sound and has produced some initial success, but whether customs, foreign trade, and all the other related policies will actually be implemented will directly affect the continued development in production.

Recently, city government reference material suggested that the robust buying and selling markets and the continued and substantial increase in exports mark the most important and basic trend in Shenzhen's commercial situation so far this year.

Shenzhen is located at the domestic and foreign economic confluence. The constant flow of domestic and foreign trade has brought prosperity to Shenzhen's market. Citizens of Shenzhen can see for themselves the bigger crowds on the street and in the stores. Figures show that so far this year, more than 200 delegations from the provinces, cities, and autonomous regions across the country have come to Shenzhen to launch all kinds of economic activities. People from abroad or from the mainland travel to and from the SEZ more than 240,000 times on an average day; this is a 21.4 percent increase over the same period last year. There is a constant flow of tourists, businessmen, and people visiting relatives, and Shenzhen's commerce and tourism have flourished. During the first 6 months of this year, net purchase and net sales of the city's goods have increased 66.7 percent and 48.3 percent respectively, probably one of the fastest rates of increase in recent years.

Because Shenzhen has managed to seize a timely international market opportunity, foreign trade has flourished. The increase in exports and foreign exchange earnings, in particular, has topped all other industries, and Shenzhen has maintained a reasonable foreign trade surplus. This shows that Shenzhen's foreign trade and commercial industries are fairly adaptable to changes and are very competitive. The appreciation of the Japanese yen, the Deutsche mark, the South Korean won, the new Taiwan dollar and other currencies have made China's export commodities more competitive, and Shenzhen has taken immediate action to develop the production of export goods, set up joint-operations with

the mainland to develop new supplies of export goods, improve the product-mix of exports, and explore overseas markets. Today's gratifying situation is the result of those efforts. Now Shenzhen is moving forward in the international market smoothly; it has established almost a hundred contact points with more than 20 countries and regions. It is very likely that the city will exceed this fiscal year's foreign exchange earning plan by a substantial margin.

Despite the gratifying trade situation, there are some hidden worries. For example, the excess demand in the domestic market has resulted in the shortage of some non-staple foods. Furthermore, because of price reform in the mainland, because some merchants have been driving up prices, and because of irrational circulation organizations, prices have been rising steadily. Even though the rise in Shenzhen's retail price index is small compared to other counties and cities in the province, because of the high base figure, the living standard of average workers has been affected. As another example, higher domestic product prices have caused the cost conversion rate to rise month after month, and so the economic result of foreign trade has declined. Furthermore, the rate of increase in the export of Shenzhen's own products has been slower than that of the rest of the mainland, and the supply of export goods has become less stable, making the export business more treacherous.

If these problems are not resolved, the trend of rapid development in the trade economy cannot be sustained. To solve these problems, basically, we must accelerate the development of commodity productions, and work out the circulation problems, and in particular, we must promptly develop commodity production bases in Shenzhen, in the mainland, or even overseas, wherever we can find a cheap supply of resources. At present, these problems have already caught the attention of the city government which has adopted a three-prong strategy to develop productive capacity, restore order in the price situation, and smooth out the wage problem.

Half of the year has gone by, and as far as Shenzhen is concerned, it has been an extraordinarily prosperous 6 months, tainted by hidden worries. In the next 6 months, there will be more challenges and opportunities. The city government has constantly reminded those in the economic circles that, the better the outlook, the more we need a sober mind. We must seize the opportunities, implement thorough reform, and spare no effort. These will guarantee an even more prosperous golden age.

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#### Zhuhai Foreign Investments Increase

HK2009133188 Beijing CEI Database  
in English 20 Sep 88

[Text] Zhuhai (CEI)—The number of contracts signed by Zhuhai from January to July for foreign investments represented a 53.3 percent increase over the same period last year. This is a sign of the success of the efforts of the special economic zone (SEZ) in using foreign money.

At one negotiation conference held in Hong Kong early this year, the SEZ signed with foreign businessmen 165 accords totalling 1.2 billion U.S. dollars.

The 149 million U.S. dollars' new foreign investment is 2.6 times that of the same period (Jan-Jul) last year.

Other trends of the growth of foreign investments here are:

Investments are beginning to move to high-tech areas;

More projects are introduced such as ventures for producing computer parts, petroleum, chemical and rubber processing industry, which are a blank here.

Investments now come from the United States, Canada, Japan, Australia and countries of the European Community.

## LABOR

#### Beijing Workers' Wages Linked to Performance

OW1709184388 Beijing XINHUA Domestic Service  
in Chinese 0323 GMT 14 Sep 88

[By reporter IXIA Junsheng]

[Text] Beijing, 14 Sep (XINHUA)—In Beijing Municipality, 1,447,000 enterprise staff members and workers are now covered by a new distribution system. This system, which has been put into effect on a trial basis, makes the total payroll float with the economic returns of the enterprises. Such a reform has not only enabled the enterprises to possess the power of internal distribution and aroused the production enthusiasm of both the enterprises and their staff members and workers, but has also effectively controlled the arbitrary growth of their consumption funds. Leading comrades at the central level have already affirmed the advantages of this new system implemented in Beijing Municipality.

Beginning last year, this new distribution method has been widely popularized in Beijing Municipality. Specifically, this method is to include all bonuses and wages of the staff and workers in the enterprise's total payroll, with the exception of the nonstaple food price subsidy, bonus for economy in using raw and semifinished materials, bath and haircut fees, and transportation allowance for those living in remote suburbs. The enterprise's total economic returns and payroll are set at definite amounts on the basis of last year's records. Then, a proper ratio is set for floating the total payroll with the total economic returns. Currently, the staff members and workers covered by this experimental wage system account for 87 percent of the total number of employees of local state-owned enterprises.

This distribution method ensures a higher growth in the enterprise's economic returns than its payroll increase and, at the same time, strengthens its self-restraint

mechanism. This system also necessitates more intensive supervision over the enterprise by labor, financial, taxation, audit, and banking departments. In the 10 enterprises under the Second Light Industry Bureau of Beijing Municipality which have instituted this system, total payroll increases by 1 yuan for every additional 4.03 yuan they have contributed to the state as profit or tax. According to the municipal labor bureau's statistics covering 58 industrial enterprises, which began to implement this distribution method in 1984, the increase in their total payroll and the rise in the average per-capita wage from 1983 to 1986 were both below the growth of their total industrial output value and labor productivity for the same period.

With the implementation of the floating payroll system based on economic returns, the labor department is concerned with only the total wages of enterprises and does not look into their internal distribution. This has enabled enterprises to enjoy genuine internal distribution power. A number of enterprises have begun to break with the eight-grade wage system, the sole wage system implemented nationwide for many years, and have made vigorous efforts to explore new wage systems in line with their own characteristics. A number of distribution methods have been introduced, such as piece-rate, structural, and contract wages. This has served to do away with the egalitarian practice of "eating from the same big pot" and to arouse the initiative of staff members and workers.

Recently, Beijing Municipality has summed up the experience over the past few years and decided to further expand the experimental plan with a view to making this distribution method perfect. Next year, all state-owned enterprises in this municipality are expected to apply this distribution method. In the meantime, they will abandon the present protective policy of limiting the reduction of total payroll to 20 percent, and include all kinds of subsidies to individual staff members and workers in the total payroll for floating with economic returns.

**Article on Female Employment Problems**  
*HK0809151788 Beijing JINGJI RIBAO*  
*in Chinese 24 Aug 88 p 2*

[Article by Yan Kalin 7051 0595 2651: "Understand Anew the Employment Problems of Women"]

[Text] Several events have recently drawn people's attention. 1) 95 percent of the women in Daqiu Zhuang "have returned home" in an even-tempered and good-humored mood. 2) 6,700 female staff members and workers in Shenyang City have voluntarily asked for long leave to look after their children or manage household affairs. 3) More and more enterprises are refusing to hire women. The investigation, conducted by the female worker committee of the All-China Federation of Trade Unions, reveals that only 5.3 percent of the enterprise leaders are willing to recruit female workers. These incidents are not

isolated, nor are they accidental. It may be said that the concept of female employment and the modes of employment established over the past several decades are being pounced upon and need understanding anew.

Since the founding of our country, we have always encouraged and supported women doing the same jobs as men in order to strive for equality between men and women and to realize the emancipation of women. Thus, the high or low employment rate for women has frequently been regarded as a criterion for measuring the degree of the emancipation of women. As a result, the employment rate for women in China surpassed not only that of all developing countries in the world but also of many developed countries.

However, after obtaining employment, many women still have to do household chores. The result is that they have to handle household affairs, bring up their children, and put in a full day's work. How can we call this the "emancipation of women" since they have to shoulder such a heavy burden? Everyone knows that the physiological and child-bearing characteristics of women determine that they are very greatly different from men. Negating this difference and mechanically equating both of them will be not only disadvantageous to women, children, and family life but also not a practical and realistic attitude.

There is really a certain relationship between women obtaining employment and the emancipation of women. Engels said: "The first prerequisite of the emancipation of women is that all women should return to public labor again." The "prerequisite" mentioned by Engels also needs a condition. It is just as Lenin pointed out: "Wherever and whenever... people begin transforming trivial household chores into the large-scale socialist economy, they begin really having the emancipation of women." At the present stage of our country, owing to the low level of the productive forces, we still lack household labor of social character—as a condition for the "prerequisite." If we ignore this historical factor and simply allow women to take up work posts, this obviously cannot enable women to really become emancipated.

The issue is that a high employment rate for women should presuppose the high-degree of development of the productive forces. The condition of our country is a large population and backward productive forces, and objectively we are unable to provide the large laboring population with full employment opportunities. If we strive for a high employment rate for women, regardless of the national condition and beyond the productive force development level, the result will be that on the one hand, the social employment burden will increase or the problem of redundant personnel will be aggravated, and labor productivity will be lowered; on the other hand, the burdens of many families will increase so that a phenomenon of dawdling at work and being kept constantly on the run after work will emerge.

In addition, enterprises also feel embarrassed if women obtaining employment are equated with men obtaining employment. The result of the sample investigation conducted in Nanning City of male and female workers doing the same type of work in production, with the same grade, and with the same age is that a male worker yields 1,898.8 yuan more profit a year than a female worker in the same age bracket and 20,739.1 yuan more than a female worker who is a nursing mother. The rate of attendance and labor productivity for female staff members and workers are often relatively low and many of them are unable to engage in the work for which a norm is set. This both affects management and frequently disrupts normal arrangements for production. In the enterprises which have more female workers of the child-bearing age, economic results are relatively small, but all expenses defrayed by the enterprises for the female workers are more. It should also be seen that in the past, we mainly relied on administration intervention to protect women employment, but now, with more decisionmaking powers given to enterprises, administrative intervention has gradually not worked so well and the unemployment rate for women already is higher than that for men. Likewise, it is impossible to predict the future tendency of development.

When we say that the concept of women's employment and the modes of employment need change, it does not mean that they are allowed to return home. In fact, the emancipation of women has substantial contents. In addition to the improvement of the women's cultural standard and to facilitating women's participation in government and political affairs, it is also very important that the arduous work of household chores and of the reproduction of offspring be really recognized by society and that women obtain necessary compensation. The writer, therefore, proposes:

1. A flexible and varied system of female employment should be implemented. In light of the characteristics of women and the specific situation of enterprises and institutions, it is essential to implement such systems as the systems of working in a certain season, working 5 days a week, working half days, working by hours, working at a certain stage, and not working on the day for doing household chores, so that women have a larger choice in the length of working time.

2. A new system for the protection of women should be established. Not all women are encouraged to take up working posts, and enterprises are also not allowed to take advantage of the redundancy measures to exclude women, but it is advocated that individual will should be respected. Regarding those who are willing to return home, the government or enterprises must give them independent economic income so as to recognize the social character of household chores labor and reproduction of offspring and must provide them with opportunities and places of social contact; regarding those who are willing to take up employment, they should be

protected through economic and legal measures, like setting a statutory ratio of female employment and imposing a tax on units for failing to reach the ratio.

3. The female employment structure should be changed. Different trades, enterprises, and institutions must set different employment ratios for women, and in policy, it is necessary to encourage and support women to flow into industries, particularly the tertiary industries, where they can give better play to their abilities. In the long run, following the development of science, technology, and new and developing industries, women's physical weak points will be prevailed over by their mental strong points, and the prospects are optimistic.

Some people predict that if 70 percent of the urban women who reach child-bearing age take up employment at a certain stage, about 3 million work posts can be vacated. An investigation conducted by Shanghai Municipality reveals that 23.7 percent of women voluntarily return home specifically to do household chores; and 45 percent of women agree with the system of working at a certain stage and with the flexible working system. It must be said that a change in the concept of female employment and the modes of female employment conforms to the national condition and people's will. Why not go ahead with it?

## POPULATION

### Statistics Show Rapidly Increasing Percentage of Elderly

OW0509065088 Beijing XINHUA in English  
0545 GMT 5 Sep 88

[Text] Beijing, September 5 (XINHUA)—By the year 2040, there will be five times as many old people in China as in 1982, according to the latest statistics provided by the Chinese Academy of Social Sciences.

An article in today's PEOPLE'S DAILY says, the number of people above 65 years old totalled 49.72 Million in 1982 and is expected to reach 73.98 Million in 1990 and 86.48 Million in 2000.

### Urban 'Floating Population' Increases

OW2209050788 Beijing XINHUA in English  
1701 GMT 21 Sep 88

[Text] Beijing, September 21 (XINHUA)—The "floating population" in China's 23 largest cities totalled 10 million by the end of 1987, making up one-quarter of all residents in these cities, the current issue of the CHINA CITY ENVIRONMENT NEWS reports.

This itinerant population (composed mainly of people looking for work in the big cities) is becoming a major problem in Beijing, where the number of newcomers increased from 300,000 in 1978 to last year's 1.15 million.

Most of the people are farmers who left their fields as a result of the household contract responsibility system adopted in rural China as part of the economic reforms begun in 1979.

They came to the cities to find jobs in construction, factory work, or in the business and service trades, where they hope to earn more money, the paper said.

Once they have tasted life in the big cities, many stay for months or even years, often heavily pressuring already overloaded municipal and social services.

Increasingly, city and government officials are concerned about the problem, which, if left unresolved, could become a major stumbling-block to the progress of China's on-going reforms.

Experts suggest that city governments must give priority to problems posed by the so-called "floating population" before drawing up blueprints for further development.

In addition, city planners will have to build more restaurants, hotels, and other public utilities to meet the growing needs of the influx of new urban residents.

Finally, the experts say, governments at all levels must develop specific rules and regulations on the management of China's "floating population", and build up a network of support systems to provide better service for them in their new—and often difficult—big city environment.

**Official Says Rising Number of Unregistered Births 'Must Be Stopped'**  
*OW2209050388 Beijing XINHUA in English  
0245 GMT 22 Sep 88*

[Text] Beijing, September 22 (XINHUA)—The increase in the number of unregistered births in China must be stopped, today's CHINA DAILY quoted Gu Hailu, an official from the State Family Planning Commission, as saying.

This task requires joint efforts of such government departments as family planning, industrial and commercial management bureaus, public security, and subdistrict authorities.

According to Gu, China now has some one million children without official residence registration.

These children, known as "non-children," were mostly born to transients—people traveling around the country seeking a living or those who leave their hometowns so that they can have more children than is allowed.

The phenomenon of unlisted births has become quite noticeable recently in cities into which rural laborers are moving.

Some hospitals do not practice the family planning policy strictly. They do not require certificates from migrant child-bearing women before delivering their children as long as they pay 200 yuan for each birth.

"It is not easy to control the migrant population," Gu said, "because they are always on the move."

"As to those who have left their residential records in their hometowns, it is almost impossible for family planning offices alone to supervise them to practice the 'one-child' policy."

The State Family Planning Commission is consulting with the State Public Security Ministry on the possibility of giving temporary residence to all the transients in the cities, but an agreement has not been reached yet, he said.

**TRANSPORTATION**

**Shipbuilding Industry Receives More Foreign Orders**

*HK1509130188 Beijing CEI Database  
in English 15 Sep 88*

[Text] Beijing (CEI)—The shipbuilding industry of China received orders of more than 400,000 DWT from abroad this year.

This brought the total orders to 2.3 million DWT, of which, 1.4 million DWT have been completed and delivered to the clients.

Ordered by the United States, Denmark, Chile, Japan and Hong Kong, the vessels include three 64,000-DWT sundry cargo ships, a 62,000-DWT oil tanker, a 52,000-DWT oil-storing tanker, two 25,000-DWT oil product tankers and 15 of 2,700-DWT cargo ships.

They will be built by the Jiangnan, Hudong, Guangzhou, Chonghua and Donghai shipyards and totally completed before 1990.

**China Ocean Shipping Agency Expanding Business**

**Acts for Foreign Vessels**  
*OW1009005088 Beijing XINHUA in English  
1344 GMT 9 Sep 88*

[Text] Beijing, September 9 (XINHUA)—The China Ocean Shipping Agency acted as agent for 19,700 foreign vessels totalling 87 million dwt in the first half of this year, Liu Songjin, general manager of the agency, said here today.

Liu, who took up his post a week ago, said his agency has forged long-term business relationships with 2,000 foreign vessels.

Since its inauguration in the early 1950s, the agency has acted as agent for 416,000 foreign ships, and delivered 1.47 billion yuan (about 400 million U.S. dollars) in taxes and profits to the state.

It now has 43 branches and 14 offices, and has opened Sino-Foreign joint packaging and transportation companies in the port cities of Shanghai and Guangzhou.

### **Increases Shipping Routes**

*OW0909190088 Beijing XINHUA in English  
1540 GMT 9 Sep 88*

[Text] Beijing, September 9 (XINHUA)—The China Ocean Shipping Company will carry 215.3 million tons of goods in the coming three years, Liu Songjin, newly-appointed general manager of the company, said here today.

Founded in 1961, the company now has more than 600 vessels and a staff of 3,800. Last year, the company's freight volume amounted to 70.6 Million tons.

The company's fleets now sail to 600 ports in 150 countries, said Liu, who was appointed to the post September 1.

Its competitiveness will be enhanced as the managerial responsibility system with the manager taking full charge of operation is to be adopted in November.

The company now has 43 regular cargo shipping routes.

Liu added that his company will open more new regular cargo shipping routes in the next three years to meet the increasing demands of the country's foreign trade.

### **Air Transport Service Expanded**

*OW2209121788 Beijing XINHUA in English  
0903 GMT 22 Sep 88*

[Text] Beijing, September 22 (XINHUA)—China's air services have expanded rapidly during the past ten years; the air routes have doubled and the volume of transport, quadrupled.

Aeronautic development in China started late, and in 1978 there were only 50 transportation planes operating on a limited number of air routes. But, after the overall reform in air services by the separation of administrative organs from enterprises last year China's air services began to take the road of independent operation and responsibility for their own profits and losses.

According to incomplete statistics, by the end of August this year, China's air services have more than 160 planes. Their combined transport capacity has increased by 1.5 times over the past ten years.

There are 350 air routes, 180 more than in 1978. Among them are 41 international air routes linking up with 32 cities in 25 countries and regions in the world.

With the development of the open policy and foreign trade, the civil air transport has entered a new phase since 1985. The total transportation volume had increased by 120 percent in 1987 compared with 1984, with the volume of passenger transport increased by 136 percent.

At present, there are 87 civil airports, half of which can handle Boeing-737s and other large airplanes.

### **New Harbin-Xiamen Airline Opens**

*HK1309130588 Beijing CEI Database  
in English 13 Sep 88*

[Text] Beijing (CEI)—A new airline between Harbin, the capital city of Heilongjiang Province and Xiamen of Fujian Province opened on September 10.

The airline is 2,732 kilometers long, passing through Jilin, Liaoning, Jiangsu, Zhejiang and Shanghai.

A Boeing 737 airliner of the Xiamen Airline Co, Ltd flies a round trip every Tuesday. A single trip takes four hours.

### **Country Produces More Motor Vehicles**

*OW1909133588 Beijing XINHUA in English  
0910 GMT 19 Sep 88*

[Text] Beijing, September 19 (XINHUA)—The Chinese motor vehicle makers have fulfilled their annual production target four months ahead of schedule, turning out 415,000 cars, buses, jeeps and trucks in the first eight months of this year, an official said here today.

The official, from the China Automotive Industry Corporation, told XINHUA that production in the January-August period was 37.6 percent more than that of the same period of last year.

He predicted that this year will see a big increase over last year's 445,000-vehicle output and even a record in the industry.

To open up the market further, the Chinese automotive industry has stepped up production of nine varieties of new products such as mini-buses, light trucks and cars.

The automotive market demand is for 580,000 vehicles this year.

The official said 264,000 motor vehicles were sold in the first half of this year, 35 percent over the figure for the same period last year.

Thanks to the improvement of product quality, China exported 3,500 motor vehicles and 12,000 motorcycles, worth 82 million U.S. dollars, from January to June.

The official attributed the good market to further improvement of the managerial responsibility system and more competition among enterprises.

However, the industry also faces some difficulties, the most serious of which is shortage of raw materials and electricity.

#### Circular Urges Better Control of Vehicle Market

OW1609192688 Beijing Domestic Service  
in Mandarin 1030 GMT 13 Sep 88

[Text] Inadequate administration and coordination of car markets is causing much confusion in the trading of used cars in many localities. Many unregistered or unlicensed used cars have sneaked into the market to be sold and resold, with their prices raised at each transaction, creating opportunities for many to reap colossal profits. To improve the administration of car markets, the State Administration for Industry and Commerce and Ministry of Public Security recently issued a circular, demanding administrative offices for industry and commerce, public security and supply departments at every level to cooperate in playing an active role to bring order to the car market.

The circular stipulates that, starting from 1 October 1988, invoices for transaction of all vehicle, whether covered by government plans or not, including new or used cars, used tractors and motorcycles, must be inspected and stamped by the administrative office for industry and commerce. Otherwise, public security and transportation offices will not issue license plates, accept the initial registration, or register the transfer. When the public security and transportation offices find the invoice is not stamped by the administrative office for industry and commerce, they must order the purchaser to go through the normal procedure which has been missed. Those found to have intentionally evaded supervision will be fined by the administrative office for industry and commerce. Those found to have resold vehicles for profit will be punished for speculation and profiteering.

The circular clearly points out that the used vehicle must pass temporary inspection by the public security and traffic administration offices before it is put on the market. If the vehicle fails to pass, the public security and traffic administration offices must take back the license plate and driving permit for safekeeping. No vehicle declared discarded will be allowed to be sold in the market.

#### New Expressways To Open 'Soon'

OW0609120188 Beijing XINHUA in English  
0658 GMT 6 Sep 88

[Text] Beijing, September 6 (XINHUA)—Three of eight expressways under construction in China are expected to be open to traffic soon, the overseas edition of PEOPLE'S DAILY reported today.

They include one linking Shanghai and Jiading on the outskirts of Shanghai and two in northeast China's Liaoning Province, one between Shenyang and Anshan and the other between Dalian and Jinxian county.

The eight speedways involve 859.28 Kilometers.

China has 980,000 kilometers of highways, but only about 30,000 kilometers are first rate, the paper said.

## AGRICULTURE

#### Readjusting Policies in Light of Grain Shortages

Beijing NONGYE JINGJI WENTI [PROBLEMS OF AGRICULTURAL ECONOMY] in Chinese  
No 6, 23 Jun 88 pp 13-19

[Continuation of an Article by the Grain Task Force of the Ministry of Agriculture, Animal Husbandry, and Fishery's Economic Policy Research Center: "Grain Shortages and the Readjustment of Economic Policies (Continued)—Reflections on Several Main Points in China's Grain Supply Problem"]

#### [Text] III. Background Analysis

3.1 Assessing the trend in grain requirements and appraising the "dual price system" only supplies us with two starting points for readjusting grain policies. But we must understand the scope of economic policies, as well as to what extent economic relationships will permit or limit policy readjustments. We must also understand the background of our grain supply problems and the most fundamental conflicts lurking in its recesses.

3.2 We can group the underlying conflicts that have affected China's grain supply problem into three categories: First are the serious imbalances in population scale and natural resource conditions; second are the structural conflicts in the dual economy; and third are the regular compensation and enhancement of agricultural reproductive capacity. The interweaving, interrelationship, and impetus of these three kinds of conflicts is reflected in the grain supply problem and exacerbates the difficulty and complexity involved in understanding it.

#### A. Analysis of Population Scale and Natural Resource Conditions

3.3 The pressure that China's population puts on natural resources is common knowledge. It needs no further elaboration.

B. The Effect of the Dual Economic Structure on the Grain Supply Problem

3.4 Structural conflicts in the dual economy are the fundamental obstacle to developing the agricultural forces of production. Several crucial factors that limit solutions to the grain problem derive therefrom.

3.5 Most regions of China commonly lack the basic conditions necessary to change traditional agriculture into modern agriculture in the near future. All nations that have achieved agricultural modernization have shared three factors: First, following industrialization in the country concerned, the employment structure changed in concert with the industrial structure. Second, landholdings tended to become more concentrated and broader in scale. Third, a demand for higher agricultural labor productivity resulted and industry was called upon to equip agriculture and ensure that agriculture would achieve modernization. The inherent logic of these three conditions not only places agricultural development within the sequence of overall economic development, it also prevents the creation of "reverse examples" that violate this inherent logic.

a.) Agricultural employment has declined to a smaller extent than has the value of agricultural output. From 1952 to 1986 the portion of the GVIAO derived from agricultural output fell from 57 percent to 35 percent, but during the same period the ratio of agricultural labor only dropped from 88 percent to 74 percent and the total number of people employed in agriculture in fact rose from 131.50 million to 304.67 million—an increase in absolute figures of 76 percent. In the past few years, although the development of township enterprises has alleviated the problem to some extent, this has not been enough to offset growth in the agricultural labor force.

b.) The agricultural labor force is largely tied to the land, and this makes it difficult to change minute land division. Given the fact that arable land is declining and the labor force is growing year by year, it is also possible that the already minute division of land will be further intensified and a crisis will emerge. According to statistics, in 1985 each agricultural laborer was responsible for an average of 4.66 mu of cultivated land. Based on the above growth in the agricultural labor force, and on an estimated 5 million mu reduction in arable land per year, by the year 2000 there will be only 3.91 mu of arable land per worker.

c.) A fifty-percent agricultural labor surplus and an average of 3.91 mu of land per worker are facts that we will soon face in the course of agricultural development in China. Not only will this result in the loss of essential conditions necessary for achieving economies of scale, it will also make it difficult to create the intrinsic requirements necessary to increase labor productivity.

d.) The industrial scale and efficiency necessary to imbue agriculture with new essential elements does not yet possess the foundation or conditions necessary for a complete transformation of traditional agriculture. Although China does not have high levels of agricultural equipment or production efficiency, industrial support is inadequate. The disadvantages of irrational industrial composition and low efficiency are that they make it extraordinarily expensive to replace traditional motive power and energy resources with industrial motive power and energy resources. Given the effects of China's rigid industrial composition and the direction of restructuring that has already been displayed, this situation will be hard to improve significantly in the short term. We can apply two sets of figures to confirm this assessment. First, the ratio of agricultural, chemical fertilizer, and pesticide enterprises to the total number of enterprises—and their percentage of total enterprise output value—are declining. Supposing the nation's industrial enterprises totaled 100 between 1980 and 1985, the number of farm machinery industries would have fallen from 2.2 to 1.2, the number of chemical fertilizer industries would have fallen from 1.0 to 0.6, and the number of pesticide industries would have fallen from 0.2 to 0.1. If the GVIO was 100, during the same period the share derived from farm machinery industries would have dropped from 1.7 to 1.0, the share from chemical fertilizer industries would have dropped from 2.1 to 1.4, and the share from pesticide industries would have dropped from 0.4 to 0.2. Second, economic efficiency in farm machinery, chemical fertilizer, and pesticide industries falls below that of all similar industries. In the mechanical engineering industry the average tax on profits is 27.82 yuan for every 1 yuan of the original value of fixed assets, and the average profit realized is 14.58 yuan for each 100 yuan of sales income, whereas in the agricultural machine industry these figures are only 15.75 yuan and 9.85 yuan, respectively. In the chemical industry these two indicators respectively measure 26.67 yuan, and 10.72 yuan, whereas in the chemical fertilizer they reach only 6.07 yuan and 7.37 yuan, and in the agricultural pesticide industry they measure only 5.18 yuan, and 2.67 yuan. In the course of spontaneous industrial restructuring, such low economic efficiency makes it hard to promote the flow of elements needed to support agricultural industries. Inflexible restrictions in the state plan also make it difficult to effect any major change in this situation.

3.6 The tortuous route through which agricultural productivity has developed in China has predestined a high magnitude of value for grain. First, Chinese agriculture still displays distinct traditional features. This means that "the cost of augmenting production elements is exorbitant relative to the marginal output expressed in actual income." Second, the scarcity of arable land resources in China and the development and utilization of poor and remote lands is inevitably reflected in prices. Third, although a large surplus labor force exists, wages offered in nonagricultural fields have resulted in a major increase in labor costs for grain farmers. Fourth, because

inputs of new materials still go into traditional agriculture, at the same time low industrial efficiency inevitably is reflected in the price of material inputs, therefore these inputs are expensive, and they show up in the low efficiency of agricultural production. Fifth, the high requirements of overcoming natural restrictions mean that we must pay a high price. In other words, although a declining trend in marginal benefits has begun to be apparent in land output, we must nevertheless cross the line of optimum marginal benefits in the pursuit of high output. Obviously, the high magnitude of grain values is a composite manifestation of the fundamental issue facing agriculture in China.

3.7 We recognize the dilemma involved in the high magnitude of grain values. The basic direction of rural reform is to construct a new economic system suited to the development of a commodity economy. In terms of microeconomic structure, the preceding phase of reform enabled agricultural households to become independent commodity-producing economic units, but the most difficult variables in the current stage of reform are the degree of approval of equal-value exchange and the extent to which the market mechanism will play a role.

3.8 Right now our only choice is to adopt a circulation policy that to some extent acknowledges the commercial attributes of grain, thereby balancing producers' and consumers' interests. But the fundamental problem that arises from this is that this policy itself will have a hard time coordinating the contradictory relationship between increasing grain production and increasing incomes. The state hopes to increase grain production with little increase in expenditures, whereas peasants demand increased grain production combined with increased income. The objective result of incompletely recognizing the magnitude of grain values will be to restrain grain production and dampen peasant enthusiasm for grain production.

3.9 The best policy for outflanking and avoiding the dilemma is to promote an expanded scale of cultivation for peasant households and to improve labor productivity. This is also the most reasonable scheme for focusing on the profound contradiction so that we can fundamentally change the unfavorable status that agricultural goods hold in the commodity exchange process and make the dualistic structure more flexible. Among the various factors that together constitute the magnitude of grain values, increased labor productivity is the only positive factor that can offset rising agricultural costs. However, if we really wish to form a scale suitable for eliminating the cost impetus, we must reverse the trend toward minute land division and find a solution for the approximately 50-percent labor surplus that persists even after we have attained a reasonable rate of labor conversion. As far as economies of scale are concerned, although agriculture on this scale is a factor that contributes to rising labor productivity, it in fact results from resolving the above problem. We must admit that a breakthrough to agriculture on that scale can only have

incomplete and limited value, and it can only achieve success slowly, over a long period of time. It is very difficult for economies of scale to act as a strategic fulcrum for resolving a real dilemma.

#### C. The Problem of Investment for Farmland Capital Construction

3.10 We can say that practical neglect of basic construction in agricultural reproduction is the one aspect of China's agricultural policy most worthy of criticism in the 1980's. Figuratively speaking, the current inadequacy of the agricultural infrastructure should be economically expected. With each production cycle our actual production base is not enhanced due to expanded accumulation, rather it is considerably weakened due to reduced accumulation. An important direct cause of fluctuating grain production after 1984 was the failure to replenish and enhance, as necessary, our capacity for agricultural reproduction.

3.11 After rural economic restructuring negated the commune as an organizational form it also negated the organizational basis for our system of replenishing agricultural reproduction. This produced changes in several areas. First, the corpus of investment changed: peasant households began to constitute the corpus of investors in agricultural production, and the rural collective ownership unit's fundamental investment function declined. In 1984 the collectives invested 2.899 billion yuan in agriculture, forestry, animal husbandry, sidelines, and fishery, but by 1985 collective investment fell to 2.073 billion yuan, a decline of 28.5 percent. Adjusted for inflation in the cost of production materials, the actual level of investment dropped approximately 30 percent. Second, peasant household investments in agriculture also declined progressively. In 1983 peasant investment in productive fixed assets accounted for 5.7 percent of total expenditures made by peasant households. This ratio fell to 3.8 percent in 1985. Comparing 1985 with 1983, the level of real investment declined 16.2 percent. Third, the separation of land-ownership and land-use rights made it hard to encourage peasants to make long-term investments in the land, and investment behavior became short-term in nature. Fourth, state investment in basic agricultural construction declined somewhat. Moreover, there was no new investment of state support for peasant incomes.

3.12 The above analysis clearly demonstrates the following fact: During the Sixth 5-Year Plan, the rural economic structure changed and the normal avenues of compensation and expansion in agricultural reproduction were severed to a certain extent. The old forms were destroyed and, given the fetters of land relationships and the inducements of the law of value, the new forms were hard-pressed to ensure that agricultural capital construction was effectively implemented. It is precisely the effects of this "severance" that placed a tremendous obstacle in the path of sustained, stable agricultural growth. Consequently, a major problem confronting

future rural reform is how to eliminate this "severance factor" quickly and ensure that agricultural reproduction is effectively replenished, as well as to establish an investment and accumulation system for the purpose of enhancing agricultural capital construction. This is also a central link in our effort to resolve China's grain problem. This is more practical, more urgent, and has greater policy value than the scheme to focus on economies of scale to resolve the grain problem.

#### D. Conclusion

3.13 In this background analysis we opted to examine three different levels of issues, and we made every effort to produce a rough, three-dimensional outline to clarify the background and factors that contribute to China's grain problem. The imbalance between population scale and natural resources and the effects of the dual economic structure on agriculture constitute the essential conflict behind our grain supply problem. In the course of long-range national economic development we can only gradually alleviate and come to terms with this conflict, but in the intermediate-range future we must assign top priority to the issue of replenishing agricultural reproductive capacity. The foregoing analysis reveals that in our overall plan for future grain policies, we can only resolve grain supply problems at different levels in a certain order—according to their short-range, intermediate-range, or long-range status and our actions must be based on the level of conflict involved and the expected possibility of finding a solution. Because of the economic limitations associated with deep-level conflicts and the severe distortions in actual economic relationships, we cannot find a solution that is both reasonable and practical. Therefore, we can only achieve limited success in our efforts to resolve any particular short- or intermediate-range conflict. But, at the same time, we cannot cut across the different stages of conflict resolution just because we recognize these distortions or the depth of potential conflicts. We cannot make resolution of the deep-level conflicts our most "precious" goal. Our policy on short-range conflict resolution must be subordinate to our program for long-range conflict resolution, but relief of short-range pressures can only be established on the basis of successful short-range policies.

### IV. A Plan for Reform

4.1 Our plan for reform is primarily based upon the above tripartite analysis. Given the prospect of a long-term grain shortage, and given the inherent background restrictions on policy revision, we here propose some suggestions for revising short- and intermediate-range grain policies.

#### A. Reforming the Grain Circulation System

4.2 Reforming the grain circulation system is the key link in China's grain policy. The direction of reform will determine the future pattern of organization and mode of conduct in our grain trading system, as well as the

state's status and role in grain circulation. Moreover, it will also determine whether, given the prospect of inadequate future grain resources, China can establish a new balance and ensure stable national economic growth through a stable grain-trading pattern.

4.3 We must revise parity trading policies. The principle behind revising parity trading policies is as follows: First, we must acknowledge the peculiar attributes of grain as a commodity. There is very little that can substitute for grain, hence we must ensure a relatively abundant supply of grain and not permit any shortage to appear in urban grain rations. Second, we must import supplies based on the intensity of the shortage, use pricing to control consumption, and substitute price revisions for shortages in vertical distribution. Third, we must replace the overall social welfare system with a low-income grain relief system. The main points of policy revisions are as follows: 1) Other than grain rations and grain for armed forces use, we must switch from centralized monopoly marketing to negotiated pricing for all grain supplies. Grain at negotiated prices must be sent to market as available, and marketing subsidies must be eliminated. 2) Whether grain rationing can be deregulated hinges on readjusting policies on parity. Only if we shake up grain ration sales and open up the "pistons" can we effect any essential movement in the current trading system. Right now there is some surplus in the urban grain ration, so to readjust the grain ration we must both eliminate spurious demands and, by revising prices, spur residents to decrease grain ration requirements voluntarily and help society to economize on grain. Considering these factors, we recommend that parity for grain rations be set at 7.5 kg per month and the shortfall be made up with grain purchased under negotiated pricing. 3) We should institute a policy for adjusting supplies based on grain quality. Parity grain should be exchanged only for standard flour and rice, in which case we can also lower actual supply levels. 4) Grain ration allowances should be determined based on urban relief levels. According to statistics, low-income households averaging less than 35 yuan per month account for about 5 percent of the total. The difference in allowances is quite small. 5) We should set grain supply standards for armed forces use. The same standard of grain supplies should be applied to non-field forces and paid military personnel as to urban residents. 6) We should adopt a one-step method of reducing state monopoly grain sales in order to avoid half-step measures that would lead to successive repercussions. 7) Prices for under-quota grain supplies should be readjusted annually, but the scale of adjustment should not be large. The advantage of this method is that it avoids differences in the degree to which procurement and sales inversions are drawn apart: if the procurement price is stable we can also reduce the disparity to set a standard for overall deregulation.

If we can implement the above plan and keep the procurement quota figures at about 25 billion kg, this will only account for 25 percent of China's annual trade

grain. The negative effect of contract procurement quotas on grain production will be greatly weakened. The state can seize the strategic initiative in revamping the grain circulation system, and grain circulation will thus quickly come to life.

4.4 We must reconstruct the grain circulation organization. Right now China's grain circulation organization is primarily a grain allocation, transfer, and distribution system that is subject to vertical state controls and adjustments. State grain departments directly control over 90 percent of the trade circulation of commodity grain. Although this system helps to stabilize urban grain supplies, because almost all grain trade has been turned into grain distribution within the state system, the state has no choice but to assume all risks associated with fluctuations in grain supply. Changes in the external environment, a large-scale increase in the volume of grain circulating between provinces, and the implementation of reforms in both buying and selling all make it difficult for the original system to adapt. In the past few years of reform in the circulation system there has been a shift to negotiated trading for some grain, and the share of trade handled by state-run grain departments has increased. But operating profits turned over to state coffers, chongdi [0394 2107] losses, the commercial nature of state-run enterprises is still indistinct, and reforms in the state grain management system have yet to achieve a substantial breakthrough. The situation in our grain circulation organization has become the most basic obstacle keeping us from advancing reform in the grain circulation system. The only way to eliminate this obstacle is to reconstruct the organization.

a.) Now the most convenient method is to substantially reorganize the state-run companies that handle negotiated grain procurement. Thereafter, we will release them from the grain system and make them independent, real commercial grain enterprises, featuring independent accounting, full accountability for profits and losses, and autonomous management. Through procurement, storage, and sales activities, these can become the locus of local commercial grain activities and fulfill grain trading needs within a region. At the same time they can engage in trans-regional and trans-provincial grain trading and, through lateral inter-regional circulation, restrain prices and adjust surpluses and shortages.

b.) We must enrich the organization of circulation among the people. Locally registered supply and marketing cooperatives, cooperative organizations, and specialized households can engage in commercial grain activities after they obtain local government approval. If each different component is principally involved in market participation, this may break the monopoly and allow free competition, as well as meeting market demands at all levels.

c.) We must establish wholesale grain markets. Each locale should design and establish wholesale grain markets in major grain producing regions and traditional

grain collection and distribution centers. The formation of many regional wholesale and trading centers and the network of lateral trans-regional connections between state-run grain enterprises can effectively take the place of the state's horizontal allocation and transfer system. That is to say, if the number of procurement quotas in state grain contracts can be reduced to less than 25 percent, then 75 percent of all trade grain will be procured, wholesaled, sold, and circulated through commercial activities. Grain surpluses and shortages between provinces will be adjusted primarily through grain trade among the people, and the state will only need to manage the allocation, transfer, and sale of 25 percent of the grain at par. This will both apportion the risk as much as possible and resolve conflicts that may occur in financial distribution relationships and in grain allocation and transfer patterns between the central government and local areas.

d.) In the process of transferring functions and organizing reconstruction, government grain departments must remain thoroughly separated from commercial activities. Their primary functions should be as follows: First, they must manage the local grain market. Second, they must establish high-volume "standard government warehouses" near grain collection and distribution areas. By handling a large volume of grain, these warehouses will adjust and restrain excessive fluctuations in the grain market. Third, they must supervise secure state grain storage in each locale. The total volume of state grain reserves can be set at 15 to 25 billion kg, and secure storage should be apportioned among the "standard state warehouses." Fourth, they should be responsible for the allocation and transfer of grain sold at par. Procurement of grain at par can be done by proxy through the state-run companies that handle negotiated grain procurement. To avoid multiple quotas and multiple receipts of grain, units operating under contracted procurement quotas should obtain a signed certificate from the state.

e.) Because excessive fluctuations and confusion in grain circulation and "big conflicts" over grain must not be permitted, as we begin to deregulate we must use legislative means to determine what methods state grain departments will use, how wholesale markets will be organized and managed, and what qualifications for legal personnel and standards of business practice will be required for grain enterprises. In this way we can establish good commercial conduct and business procedures.

4.5 We must reform policy trends in the grain circulation system. In planning for reform in the grain circulation system we must as far as possible lean toward commercializing grain within the existing economic structure. We must cut back on grain procurement under contracted quotas and allow the "active" portion to account for the largest share of the grain market. We must dissolve the old system, reform the state's horizontal grain allocation and transfer system, and establish a new commercial grain circulation network. By conducting

commercial activity on a large scale we can improve circulation efficiency and engage the market mechanism. By deploying resources in an optimum fashion we can stimulate grain production, ensure stable grain supplies, and bring about a new balance in grain supply and demand.

#### B. Reforming Grain Pricing and the Rural Tax System

4.6 If we can arrive at a plan for reforming the grain circulation system, it will have the following effects on the effort to reform grain pricing and the rural tax system: 1) If free trade and market regulation goes into effect for most commercial grain, the state's management role in pricing will be amplified and its price-setting role will be weakened. 2) Fluctuations in market prices are primarily affected by supply and demand and by cost changes. The state must be able to differentiate the factors that contribute to fluctuation, understand the patterns of market fluctuation and change, and permit cost changes to propel prices in an unrestrained fashion. But fluctuations that arise because of deviations in equilibrium must also be restrained to within a certain range of intensity. Consequently, the state must formulate annual standards on increases in floating prices, so that these may be used as a basic yardstick for gauging the volume of grain the state must handle in order to restrain prices. 3) The negative effect that state price-setting has had on grain production will tend to decline, and tax reform may further reduce this effect to a minimum. 4) Prices sometimes have a stagnating effect on readjusting production, and it is difficult, overall, to produce more profits just by investing more money. Consequently, as market prices begin to adopt a stronger guiding role, we should link tax reform and price reform together into an organic whole and use tax revenue as a lever to make up for the defects inherent in the regulating function of prices. 5) Tax levers can be a tough and effective means of implementing the state's plan to regulate agricultural production. They can also bring the various profit relationships into line with each other and curb gross inequalities in profits brought about by variations in supply and demand for different products. Consequently, the roles, functions, and effects of taxation as an economic lever will be distinctly enhanced.

4.7 To integrate system restructuring with the above changes, the first matter in grain price management must be to establish a form of price management that is compatible with the system of market organization. 1) The state must be responsible for regulating prices on parity grain procurement and sales. It must not administer by fiat or exert any direct control over market price regulation. 2) The nature of the state's grain administration program must be to promote active self-regulation by controlling the parameters of the market economy. That is, it must supervise the economic conduct of enterprises, stipulate the boundaries of economic activities (such as quantities that may be hoarded for speculation, the scale of trade, and profit levels), and influence market trade by handling grain in volume. 3) We must

establish a system of price inspection and supervision. By setting up a comprehensive grain trade reporting system and periodic checks, we can guarantee free trade and institute lawful means of formulating and supervising prices. 4) We must set up a national system of price information and, in order to adjust and control prices, we must institute a macroeconomic policy to provide reliable information.

4.8 Next we must check the scale of inflation in future grain prices and make this the primary parameter for controlling prices. The factors that directly spur price inflation are as follows: 1) Inflation in agricultural labor prices—from 1978 to 1985 the price of rural labor rose an average of 9.4 to 10.8 percent per year; 2) Inflation in material prices for agricultural production—between 1978 and 1985 material prices rose roughly 28.8 percent (based on Heilongjiang statistics); 3) A slowdown in rising labor productivity, after 1985 the possibility of increasing labor productivity through further economization disappeared and the volume of labor input per mu tended to stabilize at a new level. Between 1980 and 1984 we managed to shave 43.6 percent off the volume of labor input per mu, and labor productivity rose 16 percent per year. In 1985 we saved only 4.4 percent on labor volume per mu and labor productivity increased 2.5 percent. In the future labor productivity can only rise about 3 percent.

Based on an analysis of the above factors, hereafter grain prices will need to rise 5.8 percent per year (using 1985 prices as the parameters). If we consider natural resource conditions and progressive decreases in marginal returns, the annual adjustment in grain prices should be maintained at roughly 7 to 10 percent. This parameter can act as the primary basis for yearly increases in prices offered under contract procurement quotas, and it can also act to eliminate cost changes and discriminate price fluctuations arising from deviations in supply and demand. If the price change is higher or lower than this index, we can consider government intervention and decide to what extent it is necessary.

4.9 We must utilize international grain resources to alleviate the conflict between supply and demand and slow down the rate of price inflation. Because domestic grain supplies will be facing a situation of long-term shortage, to avoid excessive inflation in market grain prices after we complete deregulation, we must consider maintaining a substantial volume of grain imports during the initial phase of deregulation. We should import grain on a scale suitable to stabilize inflation in domestic grain prices at 6 percent.

4.10 We should advance agricultural tax reform and circulation system reform together. The direction of tax reform should be as follows: First, we should change the lopsided tax burden on agricultural goods—in particular we should reduce the excessive tax burden imposed on grain and change taxation's counter-regulatory effect on

grain production. Second, we should control indiscriminate occupation and misuse of land, protect land resources, regulate differential profits on land, and help to utilize and improve low-grade land. Third, we should adjust peasants' economic interests and, primarily by adjusting tax revenues on profits from different products, implement the state's plan for production on arable land.

4.11 The essential points for reform in the agricultural tax system are as follows: 1) We must transform agricultural taxes into land taxes and product taxes. 2) Land taxation primarily means levying land-use taxes, according to the type of use, on those who occupy the land. In view of the current decline in taxes on arable land, we should retain the "tax on occupation of arable land for nonagricultural purposes" that we have already initiated, and levy it independently over a long period of time. 3) The principle behind levying a land-use tax is to differentiate our approaches to different kinds of land use. We should levy heavy taxes on nonagricultural land use and relatively light taxes on agricultural land use. We can lighten the tax burden when land is used to engage in developmental production projects and we can double the tax levy on those who allow the land to remain idle or abandon cultivation and let the land become wasteland. In addition, we should also distinguish between land of different quality: superior, intermediate, and poor land should each carry a different tax burden. 4) Land-use taxes are local taxes: all income derived therefrom goes into local coffers to use for cultivating, reclaiming, and maintaining the land. 5) Right now we levy more than 20 kinds of product taxes. In the future we will expand this to cover all agricultural and sideline products, and we will eliminate taxes on rural specialty goods. 6) The keys to levying product taxes are to apply different tax rates, adjust the disparate incomes that result from producing different goods, ensure reasonable distribution of agricultural resources, and prevent the price of any one agricultural product from rising suddenly and precipitously and affecting production of other products, particularly grain. Consequently, taxes on agricultural goods differ from taxes on industrial goods. Agricultural tax rates must be relatively flexible because some may have to be substantially revised within the year as market prices fluctuate. 7) Agricultural tax revisions must adhere to the principle that the kinds of taxes may change and the number of taxable products may increase, but the overall tax burden must remain the same. According to our calculations, the overall level of the post-reform peasant tax burden can be kept to about 20 billion yuan. That represents 4.66 percent of the gross value of agricultural output and 10.05 percent of total procurement of agricultural and sideline products in 1989. This way we can effectively spread out the numerous tax burdens oppressing grain farmers and avoid adding product taxes to that burden. But as for the unreasonable situation that precludes any reduction in product taxes levied on grain, under the new tax-rate plan, product taxes on grain will probably amount to about 3 billion yuan.

### C. Further Readjustments in Land Relationships and Land Utilization Methods

4.12 The tentative plan for reforming the grain circulation system provides new possibilities for relieving the enormous pressure that long-term grain subsidies have exerted on state finances. This will extricate us from the predicament of having no choice but to maintain several billion yuan worth of subsidies in order to alleviate short-term pressures, and, because of this, having insufficient state funds to invest in capital construction on farmland. In order to guarantee stable growth in grain supplies, the state's investment in capital construction on farmland should be restored to more than 10 percent of the funds within the state budget, and we should maintain an average annual increase of 5 percent.

4.13 To revamp the channels of regular compensation for agricultural reproduction and to enhance capital construction on farmland, the most important things we should do are to ensure that peasant economic behavior is geared to their long-term interests, and to stimulate new enthusiasm for labor accumulation and labor investment in the land. The problem arises from the peasants' relationship to the land, and the key to resolving the issue also stems therefrom.

4.14 Our basic view on how to reorder land relationships is as follows: We used centralized methods—equal land division and the output-related system of contracted responsibility—to resolve land problems at the beginning of the 1980's, when levels of rural economic development in China differed very little from place to place, and by doing so we effectively increased the level of land and resource utilization. Now, when major differences in levels of rural economic development have appeared, it would be unrealistic to try to adapt the same centralized methods to land relationships that have changed and prospered, or to try to consider differing interests on all sides of the question. We should adopt a more flexible land policy.

4.15 Readjustments in our land policy must be adapted to the economic, scientific, and technological levels and natural resource conditions extant in different regions. The point of departure for these readjustments must be to raise the ratios of land and resource utilization as high as possible. Disparities in economic and natural resource conditions should be reflected in the flexibility of land policies. As the central government formulates the fundamental laws and standards that will govern land relationships, and as it establishes the basis for elementary land management rights, it should invest prefectures and counties with the jurisdiction to set special land policies. The provinces should retain the right to examine, approve, and reconsider decisions that are made.

4.16 Based on China's division into three major economic regions and the tri-level development of our rural forces of production, we propose the following tentative plan for a readjusting land relationships level by level:

a.) In the developed regions of eastern China, suburban areas, and township enterprises we should stabilize existing collective land ownership rights, use land policies to encourage prudent efforts to promote suitable land concentration, and more or less restrain the trend toward dual employment. By making collective investments in basic agricultural facilities and continuously upgrading the intensity of farming on the land, we can establish grain production bases and technology-intensive horticultural farming on a suitable scale. In this regard we need to understand that the word collective does not imply sweeping monopolistic management; rather it means supplying some start-up capital, promoting land concentration, and providing some social services on an equal-exchange basis in order to build a foundation for future agricultural self-accumulation and self-expansion, create a high capacity for assimilating modern agricultural technology, provide a new starting point for development, and accelerate the transition from traditional agriculture to modern agriculture.

b.) Because there is a low level of economic development in most of central China, the collective economy is not strong enough to support the construction of modern agriculture. Consequently, we should work from existing contract relationships to define land relationships more clearly and implement the land policy known as the "perpetual contract system." That is, we should reorganize excessively scattered lands on whatever scale the peasants will permit, and then issue land-use permits to extend the contract relationship in perpetuity. The land-use contracts must clarify contractual relationships on both sides, such as the obligations, responsibilities, and tax payments required, and it must permit the contractor to renew or transfer the contract for agricultural purposes. The two parties involved must negotiate to determine the price of land transfers, and this must be recorded in the land ownership office.

c.) We should implement a more generous developmental land policy in distant border regions and western China, and institute a form of private ownership in which whoever developed the land would own it. Development is extremely difficult in these regions, and it requires a firm and indomitable pioneer spirit, ample capital investment, and the ability to surmount unimaginable difficulties. It also involves a long-term effort to produce any benefits. Consequently, instituting private land ownership on a substantial scale and guaranteeing that, as owners, investors will reap economic benefits and be compensated for their risks, can effectively advance the progress of development and construction in these regions.

4.17 In certain major grain-producing regions, primarily those essentially agricultural but economically undeveloped regions, we suggest that we put into effect policies to spur the growth of nonagricultural industries and reduce the trend toward dual employment. That is, we should grant "business development expenses" for peasants who voluntarily give up their land and are capable

of engaging in a nonagricultural industry but lack the funds to do so. Encouraging peasants who turn to nonagricultural trades to completely renounce their claims to the land will accelerate the process of land concentration in grain-producing regions. "Business development expenses" will be paid primarily out of the state-established "land transfer fund."

4.18 Sweeping revisions in land policies can provide a new policy basis and a new impetus for further agricultural development. Not only can they ensure that China's land policy is more creative, constructive, and suited to actual rural conditions, but they can also make Chinese agriculture more flexible and resilient in readjusting forms of resource utilization. On the one hand, policies that encourage land transfers help us to develop a suitable scale of agricultural production; on the other hand, they encourage peasants to invest money and labor in the land, and they enhance elementary agricultural construction, promote the widespread adoption of new technology in place of more land use, improve the land utilization ratio, and create a horticultural system of Chinese agriculture: one which is not land-extensive, but that is highly labor- and technology-intensive. Now and in the future the central task of agricultural development will be to expand the supply of agricultural products. Consequently, in most rural areas, moving toward higher land concentration and better labor productivity—in consequence of a greater land utilization ratio—conforms to China's national conditions and will not likely change until the end of the century. (Editor's note: Reference material omitted)

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**Soybean Exports Restricted**  
*HK0809095588 Beijing CEI Database  
in English 8 Sep 88*

[Text] Beijing (CEI)—China will tighten price control and export of soybean and soybean fodders, a circular of the Ministry of Foreign Economic Relations and Trade announced recently.

According to the circular, soybean exports this year will not exceed the original plan unless approved in advanced by the ministry. Purchasing price of bean dregs should not exceed 650 yuan per ton.

Export licenses of soybean cake and soybean dregs will be issued by the branch offices of the Ministry of Foreign Economic Relations and Trade in Dalian, Tianjin, Shanghai and Guangzhou. Local governments must stop issuing licenses immediately.

The circular also noted that foreign trade enterprises which purchase bean products with higher prices shall be suspended from the rights of soybean export by the ministry.

**Japanese Firm Wins Bidding for Irrigation Project**

*HK3108100588 Beijing CEI Database  
in English 31 Aug 88*

[Text] Lanzhou (CEI)—A Japanese firm won an international bidding recently for the construction of a tunnel for a large irrigation project to channel the Datong River water into the Qingwangchuan valley.

Biddings for the project which was estimated to need an investment of one billion yuan opened in 1986 and 1987 respectively.

The Japanese company won a bid to build a 15.73-km-long irrigation tunnel at Pandaoling mountains. Other tenders including construction of ten tunnels for the upper and lower sections of the project's trunk canal and two siphoning projects were bidden out.

The World Bank decided to provide 123 million U.S. dollars in loan to help build the project.

The Datong River originates from Qinghai Province and its water gets into the Yellow River along the border of Qinghai and Gansu Provinces. The Qingwangchuan valley is near Lanzhou City and 100 km from the northern bank of the Yellow River. Its higher geological conditions and rich water resources are very conducive for irrigation purpose.

**Sino-Japanese Edible Oil Company Set Up in Dalian**

*OW0409170588 Beijing XINHUA in English  
1154 GMT 4 Sep 88*

[Text] Dalian, September 4 (XINHUA)—The Dalian Nisshim Oil Mills Ltd., the largest Sino-foreign joint venture in China's edible oil industry, was set up today in northeast China's coastal city of Dalian.

With a total investment of 29.75 million U.S. Dollars, the company was jointly founded by four Chinese enterprises and four Japanese companies

The joint venture is designed to process 180,000 tons of soybeans a year to produce 11 varieties of products including high-grade edible oil, salad oil, soybean protein, industrial phosphatide and edible phosphatide.

Production will be arranged in accordance with international standards. It will export 46 percent of its products. It is scheduled to be put into production on October 1, 1990.

The company has started to build an export port able to accommodate ships up to 10,000 dwt.

**Guangxi Agricultural Bank Loans**

*HK1909142088 Nanning Guangxi Regional Service  
in Mandarin 1100 GMT 19 Sep 88*

[Text] Agricultural banks at all levels in Guangxi Region have seriously adjusted their credit structure and controlled the credit scale. They have achieved good results. The amount of all loans issued by all agricultural banks throughout the region in August was 856.96 million yuan, which was 276.18 million yuan less than in July. Except for the loans for procuring the agricultural and sideline products and the special low-interest loans for helping the poor were 84.88 million yuan and 5.16 million yuan more than in the preceding month, all other loans were less than in the preceding month. Industrial, commercial, and other loans were reduced by 178.88 million yuan and the loans for the township and town enterprises dropped by 42.16 million yuan. The balance of all loans of the agricultural banks by the end of August was 115.43 million yuan less than in the preceding month.

**Guizhou Agricultural Meeting Sets Goals**

*HK0709024988 Guiyang Guizhou Provincial Service  
in Mandarin 2200 GMT 6 Sep 88*

[Excerpts] The representatives attending the provincial agricultural work conference were optimistic about Guizhou's agricultural production this year. Although it is certain that production of grain and rapeseed will drop compared with last year, total agricultural output value is expected to rise by 8.6 percent due to the big increase in the township and village enterprises and in animal husbandry.

The conference, which concluded on 6 September, arranged next year's agricultural production plans. Next year the province should strive for agricultural output value of 7 billion yuan, including 4 billion yuan from the township and village enterprises. The province should strive to produce 7.25 million tons of grain, afforest 3.5 million mu, and increase the irrigated area by 200,000 mu. The meeting proposed eight specific measures for achieving these goals:

1. Do a good job in autumn farmwork so as to lay the foundation for a bumper grain and oil harvest next summer.
2. Step up water conservancy construction and strive to improve the conditions for agricultural production.
3. Do a good job in improving the soil and its fertility.
4. Strive to overfulfill the afforestation plans, and speed up forestry development.
5. Vigorously promote animal husbandry. We should build marketable pig bases and strive to boost pig production as fast as possible.

6. Vigorously develop commodity economy and actively exploit non-farmland resources. We should continue to grasp the building of marketable grain bases in 20 counties, and also strive to establish bases for seed, rapeseed, tobacco, tea, and fruit, to raise the level of intensive cultivation.

7. Speed up the popularization of applied agricultural technology. The province must fulfill next year's plan for sowing 5 million mu of hybrid rice and 4 million mu of hybrid corn.

8. Step up the building of the services setup and improve the level of socialized services.

Liu Zhengwei, deputy secretary of the provincial party committee, Qiao Xuehang, vice chairman of the Provincial People's Congress Standing Committee, and Wang Anze, vice governor, spoke at the meeting.

**Sichuan Radio Reports 'Fierce Tobacco War'**  
*HK0809021188 Chengdu Sichuan Provincial Service  
in Mandarin 2200 GMT 7 Sep 88*

[Text] A fierce tobacco war has broken out on the borders of Sichuan, Guizhou, Hunan, and Hubei, and this has reached white heat in recent days. Because tobacco procurement prices in Hubei, Hunan, and Guizhou are much higher than in Sichuan, there has been a

big outflow of tobacco from Sichuan's Qianjiang Prefecture, whose five counties including Youyang and Xiushan are the province's major tobacco-growing areas.

Since tobacco procurement work began in July, the average procurement price in the neighboring provinces has been about double the price set by the state. This caused an immediate reaction among the tobacco-growing peasants in Sichuan. The neighboring provinces have openly set up procurement centers on the provincial borders and have also sent people into Sichuan's counties to procure tobacco secretly. Thousands of tobacco peasants and dealers have quietly shipped tobacco out of the province.

Due to the lack of finances in the counties of Qianjiang Prefecture, it is impossible to increase the tobacco procurement price there. Xiushan County, which expected to procure 80,000 dan of tobacco this year, has so far procured only 17,000 dan.

**Yunnan Agricultural Investment**  
*HK0809104988 Kunming Yunnan Provincial Service  
in Mandarin 1000 GMT 7 Sep 88 HK*

[Summary] Yunnan Province has notably increased its investment in agriculture. From January through July, the province appropriated 736 million yuan from the financial budget as agricultural investment, an increase of 17.4 percent over the same period last year.